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# The Role of Skills from Worklessness to Sustainable Employment with Progression

Evidence Report 38  
September 2011



# **The Role of Skills from Worklessness to Sustainable Employment with Progression**

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**September 2011**

# Foreword

The UK Commission for Employment and Skills is a social partnership, led by Commissioners from large and small employers, trade unions and the voluntary sector. Our mission is to raise skill levels to help drive enterprise, create more and better jobs and promote economic growth. Our strategic objectives are to:

- Provide outstanding labour market intelligence which helps businesses and people make the best choices for them;
- Work with businesses to develop the best market solutions which leverage greater investment in skills;
- Maximise the impact of employment and skills policies and employer behaviour to support jobs and growth and secure an internationally competitive skills base.

These strategic objectives are supported by a research programme that provides a robust evidence base for our insights and actions and which draws on good practice and the most innovative thinking. The research programme is underpinned by a number of core principles including the importance of: ensuring '**relevance**' to our most pressing strategic priorities; '**salience**' and effectively translating and sharing the key insights we find; **international benchmarking** and drawing insights from good practice abroad; **high quality** analysis which is leading edge, robust and action orientated; being **responsive** to immediate needs as well as taking a longer term perspective. We also work closely with key partners to ensure a **co-ordinated** approach to research.

This report is one of a suite of research outputs commissioned under the National Skills Research Strategy in 2010-11. The study reviews evidence on the role of upskilling as a lever in supporting the transition from worklessness to sustainable employment with progression. The report includes a review of the quantity and quality of low paid work and the nature and outcomes of skills interventions and policy in the UK and abroad.

The report argues that there is an inextricable link between skills and 'better jobs'. The report explores the challenges and opportunities for employers, individuals and stakeholders to enable those at risk of labour market exclusion and those with low skills working in low paid jobs to achieve progression in the labour market. The authors conclude that a long-term view is required to decide how best to support someone at the point of worklessness: to address employability barriers in the short-term; and prepare the individual to retain, and progress in, employment. The concept of career is explored as a framework for progression: a combination of career guidance, a career / personal development plan and career management skills are identified as tools to raise aspiration and enable individual's to take action once they are in work to support their own progression.

Sharing the findings of our research and engaging with our audience is important to further develop the evidence on which we base our work. Evidence Reports are our chief means of reporting our detailed analytical work. Each Evidence Report is accompanied by an executive summary. All of our outputs can be accessed on the UK Commission's website at [www.ukces.org.uk](http://www.ukces.org.uk)

But these outputs are only the beginning of the process and we will be continually looking for mechanisms to share our findings, debate the issues they raise and we can extend their reach and impact.

We hope you find this report useful and informative. If you would like to provide any feedback or comments, or have any queries please e-mail [info@ukces.org.uk](mailto:info@ukces.org.uk), quoting the report title or series number.

Lesley Giles

# Table of Contents

Executive summary .....	i
<b>1 Introduction.....</b>	<b>1</b>
1.1 National policy context .....	1
1.2 The aims and objectives of this study .....	5
1.3 Key concepts.....	5
1.3.1 'Skills' .....	6
1.3.2 'Low paid' and 'low skilled' work .....	7
1.4 Sustainable progression .....	8
1.5 Methodology.....	9
1.6 Report structure.....	10
<b>2 Economic and labour market context.....</b>	<b>11</b>
2.1 Introduction .....	11
2.2 Industrial restructuring .....	11
2.3 Labour market polarisation .....	12
2.4 Trends and characteristics of low paid work in the UK.....	14
2.4.1 Low pay and place .....	15
2.4.2 Low pay and gender .....	16
2.4.3 Low pay and sector .....	17
2.4.4 Low pay and occupation .....	19
2.4.5 Low pay and part-time work .....	21
2.4.6 Low pay and age .....	23
2.4.7 Low pay, ethnicity and migration.....	25
2.4.8 Low pay and low qualifications.....	27
2.4.9 Low pay and self-employment .....	28
2.4.10 Low pay and job quality .....	29
2.5 The impact of the NMW on low paid / low skilled work .....	30
2.6 Low pay projections .....	31
2.7 Key findings .....	34
<b>3 Skills and the transition from benefits to work.....</b>	<b>36</b>
3.1 Introduction .....	36
3.2 Why people develop skills? .....	36
3.3 Participation in training.....	38
3.4 Skills and labour market outcomes .....	40
3.5 Basic skills .....	43

3.6	Employability skills.....	44
3.7	Skills are not a magic bullet .....	47
3.8	The demand-side .....	48
3.9	Evidence on employer skills needs .....	49
3.10	The role of employer recruitment practices in transitions .....	50
3.11	Key findings .....	53
<b>4</b>	<b>Success factors; policies and practice to support transition.....</b>	<b>56</b>
4.1	Introduction .....	56
4.2	Overcome multiple challenges.....	56
4.3	The role of training in Active Labour Market Policies.....	57
4.4	Developing skills.....	61
4.5	Information, advice and guidance.....	64
4.6	Aligning employment and skills.....	66
4.7	Towards ‘what works’ .....	68
4.7.1	Young people .....	70
4.7.2	Older people .....	71
4.7.3	Lone parents .....	72
4.7.4	Disabled people or people with health problems.....	73
4.7.5	Ethnic minority groups .....	74
4.7.6	Overcoming multiple barriers.....	75
4.7.7	Towards flexibility, aligned and holistic intervention .....	76
4.8	Key findings .....	78
<b>5</b>	<b>Skills and sustained progression in the labour market .....</b>	<b>80</b>
5.1	Introduction .....	80
5.2	Retention in low paid work .....	80
5.3	The low pay no pay cycle.....	81
5.4	Why do workers leave low paid jobs? .....	83
5.5	Progression .....	86
5.6	‘Dead end jobs’ .....	87
5.7	Approaches to intervention .....	88
5.8	Factors influencing sustained progression .....	90
5.8.1	The availability of quality jobs.....	91
5.8.2	Self-efficacy and skills utilisation .....	93
5.8.3	Career Development .....	95
5.8.4	Access to training and development .....	96
5.8.5	Progression pathways .....	100
5.9	Key findings .....	104

<b>6</b>	<b>Summary and implications for policy and research.....</b>	<b>107</b>
6.1	Introduction .....	107
6.2	Quantity and quality of low paid work .....	107
6.3	Skills and the transition from benefits into low paid work.....	110
6.4	Types of training .....	112
6.5	Sustained employment .....	113
6.6	Progression .....	117
6.7	Towards the Work Programme.....	118
6.8	Gaps in the knowledge base .....	121
6.9	Conclusions .....	122

**Annex - available on the web site [www.ukces.org.uk](http://www.ukces.org.uk)**

## **Bibliography**

### **International Case Studies**



# Table of Graphs and Charts

Table 2.1	Incidence of Low-Paid Employment in the UK Economy, 2005, by Gender.....	17
Table 2.2	Proportion of Low Paid Employees by Gender .....	17
Table 2.3	Distribution of Low-Paid Employment in the UK Economy, 2005, by Sector.....	18
Table 2.4	Distribution of Low-Paid* Employment in the UK Economy, 2010, by Industry.....	19
Table 2.5	Incidence of Low-Paid Employment in the UK Economy, 2005, by Occupational Category .....	19
Table 2.6	Low-Paid* Employment in the UK Economy, 2010, by Occupation. ....	20
Table 2.7	Incidence of Low-Paid Employment in the UK Economy, 2005, by Nature of Employment Contract .....	21
Table 2.8	Low Paid* Employees in Full-time/Part-time work, 2010, by Gender.....	22
Table 2.9	Incidence of Low-Paid Employment in the UK Economy, 2005, by Age Group. ....	23
Table 2.10	Low-Paid Employment in the UK Economy, 2010, by Age Group.....	24
Table 2.11	Incidence of Low-Paid Employment in the UK Economy, 2005, by Ethnic Origin and Nationality .....	25
Table 2.12	Low-Paid* Employment in the UK Economy, 2010, by Ethnic Origin.....	26
Table 2.14	Incidence of Low-Paid Employment in the UK Economy, 2005, by Highest Qualification Attained .....	27
Table 2.15	Incidence of Low-Paid Employment in the UK Economy, 2005, by Highest Qualification Attained .....	27
Table 2.16	Projected Industrial Change in the Context of Low Pay, 2004-2020.....	31
Table 2.17	Projected Occupational Change in the Context of Low Pay, 2004-2020.....	33
Table 3.1	Participation of total population aged 18-64 years in education and training 2005-9 .....	39
Table 3.2	Participation of total unemployed population aged 18-64 years in education and training 2005-9.....	39
Table 3.3	Participation of total inactive population aged 18-64 years in education and training.....	40
Figure 3.1	Employment rate by highest qualification in the UK, OECD and EU (2007)....	41
Table 4.1	Spending on LMPs as a percentage of GDP .....	57
Table 5.1	National Health Service Skills Escalator .....	101

# Executive summary

This study is shaped by the recognition that while there has been a great deal of policy development around the transition from unemployment and inactivity to employment over the last decade, policy can still be informed about how best to nurture sustainable employment for those at risk of labour market exclusion. There remain challenges associated with, for example, the cost-effectiveness of intervention, the 'low pay no pay' cycle and access to training. As a consequence, the opportunities for sustainable progression, upward social mobility and alleviating poverty remain unrealised for many workers in lower paid occupations.

The methodology underpinning this study is predominantly based on a literature search and review of the research and evidence base post 2005. This is supplemented with the development of four international case studies (Australia, Denmark, Germany, United States contained in a separate annex) and an e-consultation with country experts.

## **The quality and quantity of low paid/low skilled work<sup>1</sup>**

International comparisons suggest that the proportion of low paid jobs in the UK is broadly in line with countries such as Germany and the United States although it is much higher than Nordic Countries such as Denmark. Projections associated with the prevalence of low paid work differ somewhat but the anticipated demand for skills to 2020 suggests that low paid work will remain an important characteristic of the economy with more than one in five workers remaining in low pay.

About half of all low paid workers are clustered in three sectors: retail, health services and hotels and restaurants. They tend to be concentrated in particular occupations which include craft and related trades, plant and machine operators and elementary occupations. Low pay affects certain groups in society more than others including young workers (below 22 years), older workers (50 years+), some ethnic groups (Pakistani, Bangladeshi and Black African), women in part-time work and those living in disadvantaged areas.

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<sup>1</sup> There are many ways to define low paid and low skilled work including the one most commonly used for international comparisons 'gross hourly earning less than two-thirds of the median hourly wage'. Other definitions include jobs 'paid less than the minimum wage', the type of occupation a worker is employed in and the nature of the work environment a worker is employed in (job quality). An inclusive approach is adopted for this study with the narrative in the report making clear reference to the definition underpinning the relevant analysis.

The quality and quantity of jobs available to low skilled workers is a key determinant of the opportunities for workers to gain employment. There is little evidence that intermediaries, individuals or employers view low paid/low skilled work as a stepping stone for progression in the labour market. Employers determine the terms and conditions of employment and how work is organised, including the balance of temporary and permanent workers, skill requirements and progression structures through their human resource management policies and practices. In a policy environment where less rather than more regulation is favoured, intervention may seek to influence employer behaviour through, for example, initiatives which seek to connect with employer interests in terms of improving competitiveness (such as High Performance Working or Investors in People).

The evidence suggests that the National Minimum Wage (NMW) has helped to raise the real and relative pay of low paid workers and tempered wage inequality without having an adverse impact on the number of jobs in the economy. There is also some evidence of a positive impact on skills that suggests that the introduction of the NMW leads some employers to further invest in the skills of low paid workers in order to increase efficiency and achieve the productivity required to sustain the higher wage. In this way the NMW may, in part, help to address the low skill equilibrium in the UK economy and improve some dimensions of job quality.

The implication of our analysis is, however, that processes of polarisation (for instance how it varies within fast growing and declining industries) in the UK labour market risk trapping lower skilled people in low paid jobs that are less likely to offer opportunities for progression. The evidence of low pay in the economy reveals a need for a continuing policy emphasis on promoting opportunities for progression and training for those in lower skilled, entry-level positions. Those that enter and remain in jobs (or sectors) which offer few development opportunities are unlikely to realise their potential to progress in the labour market. This issue is of particular importance given that many people leaving benefits take their first step on the 'jobs ladder' by accepting lower skilled, entry level work: a route out of worklessness and poverty and ultimately enhancing social mobility that has been actively encouraged by current and previous governments. The challenge is to consider how best to promote training, development and progression opportunities for those who are entering or are already employed in lower skilled positions. This presents opportunities for a range of stakeholders including, for example, government departments, employers, Local Enterprise Partnerships, the Sector Skills Councils and unions.

## **The role of pre-employment training**

Worklessness is a particular problem for those with low skills. Developing skills which are relevant to work or to move on in education are clearly important however they are often one part of a complex mix of factors and generally a relatively small component of Welfare to Work (including the Work Programme) in the UK.

The evidence suggests that a range of motivating factors influence participation in skills development. From a psychological perspective, self efficacy (in this case self-belief in the ability to undertake learning or get a job) has a key role to play. Economic considerations such as developing skills to improve earnings are also important although the evidence suggests that the most effective and efficient investments in skills occur early in an individual's life cycle (i.e. before leaving compulsory education).

There is clear evidence that employment prospects are severely restricted for those leaving education with no qualifications or limited employability or basic skills. Policy intervention through, for example, adult education in later life can help to address the problem (by laying the foundations for further learning). However, the economic benefits to be realised are dependent upon the type of training undertaken and often limited for the individual, employers and the public purse, particularly in the short-term. The effective connection and coordination of adult skills provision, pre-employment training and quality labour market intelligence (via careers service providers) is required to ensure that people who are out of work are best able to benefit from any investment in this arena.

A key feature of UK policy in recent years has been the 'work-first' emphasis on activation, job search, matching and work experience over more substantive training and human capital development. While there is evidence available associated with the relative merits of each approach, the balance of the evidence suggest that job search and 'work first' placements have a larger impact for less cost in the short-term while training interventions may have better impacts in the long-term, especially when a concern with transitions into employment are combined with concerns for progression in the labour market and avoiding the low pay no pay cycle. The challenge for policy makers is to balance the long-term benefits and reduction in 'low pay no pay' cycling that may be offered by more expensive training interventions verses the more immediate, less expensive job entries delivered by other placement and career counselling services. It is a challenge further complicated by severe resource limitations in the short-medium term.

## **Evidence on the types of training**

Despite considerable evidence associated with assessments of the effectiveness and impact of welfare to work interventions, there remains a lack of robust evidence associated with the types of training that are most successful in helping workless people to enter employment. This is due in substantial part to the different circumstances facing workless individuals (including health and caring responsibilities), provision which is often multifaceted and difficult to separate (including, for example, information, advice and guidance) and varying demand-side characteristics that affect the quantity and quality of jobs available.

Different socio-economic groups (including young people, lone parents, older people and members of some ethnic minorities) in different locations have different needs which are best dealt with through local solutions. Holistic, personalised services tend to be effective but relatively costly and different approaches are required for different groups. It is important to note that each individual will have a different combination of needs and barriers to work; and, that employers will vary in their skill demands and willingness to engage with workless groups.

The evidence suggests that interventions to support individuals in the transition to work will need to consider different skills needs (e.g. basic, employability and technical) in the round and ensure that skills deficits are filled in the right sequence to meet the specific needs of individuals and employers. Quality training interventions and information, advice and guidance have a key role to play in supporting the transition from worklessness to sustained employment. However, skills interventions for the most disadvantaged will often need to be accompanied by other services (e.g. childcare, health, employer engagement) in order to overcome the multiple barriers to employment that some face. Intermediaries providing training, information, advice and guidance (IAG) and other services will need to work in partnership to deliver a coherent package effectively.

The demand-side of the labour market tends to be somewhat neglected however there is a key role for employers in the development and implementation of an integrated approach for pre-work and early work experiences. There is, however, little evidence associated with 'what works' in relation to employers of different sizes or operating in different sectors and the role that they play in the design and implementation of support for disadvantaged groups.

The complexity of matching intervention to the specific needs of both individuals and employers should not be under-stated. The evidence suggests that skills are not a 'magic bullet' however they have a key role to play alongside other interventions (e.g. information, advice and guidance, health services) to support the transition to and progression in work. Key characteristics of successful skills interventions include:

- matching training provision to learner needs and work-based contexts and the avoidance of school like settings and methods through engagement of employers and better understanding of employer skills needs;
- the use of training which provides the basis for employment *and* learning progression (including interventions to promote aspiration, positive behaviours and self-confidence) and the appropriate scheduling of skills based interventions where required (e.g. to develop the basic skills prior to apprenticeship training);
- intensive information, advice and guidance which raises aspiration and provides a framework for progression in learning and employment.

Voluntary training options appear more likely to improve motivation and result in satisfaction and lead to more positive learning and employment outcomes than mandatory approaches. Accordingly, there is a need for caution when considering the extension of compulsion and sanctions on potential participants in training interventions. Exposure to a job (and training connected to this) has been repeatedly found to be a key factor in making a successful transition to work. Such considerations will have important implications for the development and delivery of Welfare to Work and Skills policies in the current climate where sanctions may be applied to workless people if they do not take up training opportunities and job opportunities in some local areas may be limited.

The case studies provide an indication of the approaches used in different international settings and reveal mixed findings associated with various client groups, delivery outcomes and timeframe. The US case study provides several examples of intervention at the local level which supports the transition of workless groups to jobs with opportunities for progression. This experience highlights the importance of effective partnerships including education providers, employers and the Public Employment Service at the local level.

The UK spends relatively little on Labour Market Policy in comparison with the OECD average although the proportion of spending that is focused on active measures is relatively high. Training usually plays a much bigger part of intervention in other countries. Among the most consistent findings emerging from the case studies and the

evidence more generally is that training interventions deliver positive impacts but that these tend to be more apparent over the long-term. 'Work-first' type interventions, such as job search support and more intensive sanctions regimes, tend to produce stronger immediate job entry effects whereas training or human capital interventions tend to be more effective in terms of sustained employment and the reduction of the low pay no pay cycle. These mixed findings provide a challenge for those seeking to allocate scarce resources to welfare to work and skills interventions.

### **The role of skills in moving people out of the 'low-pay no-pay cycle' and into sustainable jobs with progression**

Several studies suggest that a key factor which limits progression for those who gain low paid work is job retention. The 'low pay no pay cycle' is a term that captures the policy challenge presented by those that move between low paid work and benefits on a recurrent basis. Although a general lack of high quality longitudinal research is apparent, the available evidence suggests that initial employment retention for benefit leavers is a problem for some socio-demographic groups: those with low qualifications and lone parents for example. Research suggests that this occurs for a sizeable minority more generally; for example, one in five JSA claimants reclaim benefit after 13 weeks and two in five reclaim within six months.

Some of the barriers preventing retention mirror those that act as barriers to work in the first place such as inadequate services (e.g. childcare, health) and employer human resource practices. On the demand side, relatively high rates of labour turnover are a characteristic of some sectors (often those with a relatively high proportion of low paid workers) and appear to affect some groups (e.g. those with low qualifications, women with caring responsibilities and some ethnic minorities) more than others. The characteristics of employment can be an important factor with research suggesting that those in part-time jobs or working in non-standard (e.g. temporary) contracts more likely to experience greater turnover rates.

Labour market progression is identified as a key factor in supporting social mobility and the alleviation of poverty. However there is little evidence that entry-level positions are viewed as 'stepping stones' and too few people in low paid jobs are able to develop a career which involves progression to better paid jobs. The evidence suggests that somewhere between 40 and 75 per cent of workers remain 'stuck' in 'dead-end' jobs. That said, the extent to which workers remain in low paid work due to an active choice or because of a lack skills or job opportunities is unclear and an area where further investigation is required. Recent Welfare to Work policy increasingly emphasises the desire to support the transition from benefits into 'jobs with training' which are more likely

to provide an opportunity for sustained employment without clearly articulating how this is to be achieved.

Employer' human resource management (HRM) policies and practices can help to encourage retention and progression. Unionised workplaces appear to be an important factor in access to training opportunities and the government recognises the key role that trade unions have in supporting the development of high performance working practices and playing a more active role in the workplace to access careers information and advice. Union Learning Representatives (as well as Community Learning Champions) are seen by the government to have a role to play in supporting learning and the government has a commitment to working with 'other relevant bodies' to explore how the development of workplace learning champions in non-unionised workplaces can be promoted. Both unionised and non-unionised workplaces will need to engage with this agenda if access to training and development opportunities for those in low paid and low skilled jobs is to improve.

The support and active involvement of line managers is critical for the retention and development of workers at all levels. The development of management skills has been a policy concern for several years and the findings of this study suggest that line managers may need further training so that they are equipped to place the development of the individual at the forefront of their approach. The extent to which this is for support by the employer or the state (or a combination) may be a contested issue. Employer representative bodies, professional bodies such as the Chartered Institute of Personnel Development and employers themselves need to champion and support the development of the skills of line managers to implement a 'people centred' approach to the development of workers in low paid low skilled jobs. Intervention (based on information identifying the benefits attributable to such an approach rather than regulation) may be necessary to encourage employers who do not develop the management infrastructure and capacity necessary to encourage workers in low paid jobs to develop their skills.

The findings of this study suggest five key factors that are central to the successful progression from low paid jobs:

- Availability of jobs: progression is largely driven by the quantity and quality of jobs available in the labour market. Local economic development policies and employer growth strategies which encourage the development of more and better jobs are a key element of an environment which supports progression.
- Self-efficacy and skills utilisation: performance in the workplace is a key factor in retention and progression at work. Success in the workplace breeds confidence and it has been shown that workers with high performance (self-efficacy) tend to progress



in the labour market. Employers (particularly line managers) and intermediaries (particularly customer facing advisors) have a key role to play in fostering self-efficacy among those at risk of labour market disadvantage.

- Career development: the development of a plan to underpin career development and employer HRM policies are key elements in the successful progression of workers at all levels. Employers and supply side intermediaries need to develop an environment in which low skilled workers can develop the frameworks and career assets (e.g. confidence, skills and social networks) necessary to progress in the labour market.
- Access to training opportunities: there is a wide range of factors which inhibit demand for training and these affect some socio-economic groups including low skilled workers, older men, specific ethnic minorities (e.g. Bangladeshi and Pakistani) and women in part-time employment, those on temporary contracts more than others. Demand side factors include organisational size (with employers in small organisations, in particular sectors or with no union representation are less likely to provide opportunities for formal training than larger organisations). Overcoming the barriers to training faced by specific socio-economic groups and targeted employers provide an opportunity for policy intervention to overcome market failures.
- Progression pathways: building clearer internal labour markets and progression pathways which support lateral (between and across sectors) and vertical (where workers move towards higher levels) progression can support recruitment, retention and progression of those entering low paid work. At the local level, partnership working is crucial with, for example, Local Enterprise Partnerships, Sector Skills Councils, key employers, Jobcentre Plus, Work Programme providers and Further and Higher Education providers having key roles to play.

### **Implications for pre-work intervention**

Policy has recognised the need to smooth the transition from worklessness to employment in the past and sought to address it through supply side measures such as the New Deals, Skills for Jobs, Pathways to Work and, more recently, welfare to work initiatives to get Britain working', such as the Work Programme<sup>2</sup>. Some of the previous interventions have included 'post-employment support' for those entering employment; however, available evaluation evidence suggests that this has proved to be difficult to implement successfully. Successive influential reviews have concluded that there is a need for an aligned employment and skills system to ensure that people receive the help they need to get into and on in work although this appears to have been slow to materialise. While some employers work effectively with intermediaries such as

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<sup>2</sup> More detail can be found on the DWP web site [www.dwp.gov.uk](http://www.dwp.gov.uk)

Jobcentre Plus, local education providers and the voluntary and community sector, there remains an opportunity for those that do not to work in partnership to engage with this agenda.

The findings emerging from this study includes learning which can inform the development and delivery of Welfare to Work policy, these include:

- Employer demand and engagement are central to the successful transition from benefits into work with an opportunity for progression. The development of relevant demand-side measures to reflect the benefits employers gain from employing those on benefits in terms of for example addressing an employer skill shortage or gap may help to strengthen the demand-side orientation of the programme.
- Action to ensure that pricing models for provision do not result in 'parking' those most in need and who remain most at risk of labour market exclusion. Use of a pricing model that encourages sustainable employment, as in the Work Programme, is a welcome innovation. There are concerns that a payment by results system will not adequately incentivise support for those furthest away from the labour market and most at risk of labour market exclusion, as experienced in Australia. There is an opportunity to monitor this approach and learn how best to identify and manage these risks in the implementation of the Work Programme
- The introduction of an incentive to encourage the development of the human capital of those with low or no skills (to encourage providers to make the connection with basic skills and/or apprenticeship provision) and improve alignment of the skills and employment systems.
- The introduction of a long term incentive (in the US they have used very long term outcome payments up to 10 years) based on increases in wages or a move from temporary to permanent employment to encourage providers to support people to stay in employment and continue to progress.
- The development of a framework (Personal/Career Development Plan) to integrate learning and employment (and other related services) providing an opportunity to raise aspirations and monitor progress would appear to be an essential ingredient of an effective service.
- The evidence suggests that there are clear differences between workless groups in relation to their motivation to develop skills with those on unemployment benefits more likely to cite 'getting a job' as a prime motivating factor and those on incapacity benefits more likely to identify 'learning a subject of interest'. In future, it is possible that training or work activity may be selected by a Jobcentre Plus Adviser as a 'mandatory option' for some individuals. However, fair caution is warranted:

evidence suggests that mandatory training can be less effective than if pursued as a voluntary option. Careful implementation is required to maximise the opportunity for successful intervention as there is a risk that mandated participation may prove to be a costly and ultimately ineffective intervention for some groups.

### **Gaps in the knowledge base**

This study has revealed and documented a substantial evidence base drawing on a range of methodologies and theoretical perspectives. The evidence base associated with the transition from worklessness to employment is far more developed than the base associated with progression in the labour market. There remain gaps to be explored as we seek to further develop our understanding of a complex and challenging policy area. These include:

- The impact of the polarisation process (for instance, how it varies within fast growing and declining industries) and on the related outcomes for the quality and quantity of low paid and low skilled work.
- The reasons why workers (and specific groups) in low paid jobs leave employment, the paths they take through the labour market and the steps employers take to induct and retain groups at risk of exclusion from the labour market to better understand and quantify cycling and labour market progression.
- Research to identify the factors which encourage self-efficacy (a workers confidence and ability to successfully perform a specific task within a given context) both in the workplace and during periods of worklessness to inform the development of interventions which seek to encourage the development of those at risk of disadvantage.
- The impact on labour turnover and the 'bottom line' of 'good' HR practice which develops internal progression pathways and supports the development of those in low paid jobs to inform policy development and to support employer engagement (through the identification of good practice and the promotion of the benefits of such an approach). There is an opportunity to explore the potential of existing policy measures including Investors in People (IIP) and High Performance Working (HPW) to develop employer Human Resource Management (HRM) practices in relation to low skilled and low paid jobs and the development of careers and progression for those in low paid jobs.
- More detailed evidence is required associated with the nature of successful skills based interventions. Particular attention should be placed on the assessment and matching of skills needs (on behalf of employers, individuals and intermediaries), pedagogy and the evaluation of impact by both supply (e.g. providers) and demand

side (e.g. employers) stakeholders to inform process improvements. It is widely accepted that employer engagement and influence over the design and delivery of skills intervention is a strength; however, little is known about how best to achieve this (to the benefit of the employer and the provision).

- Findings emerging from the Employment Retention and Advancement Demonstration (ERAD) suggest that the intensive advisor support associated with information, advice and guidance on training choice and how to translate new skills and qualifications into advancement in the labour market were equally as important as the financial incentives in promoting engagement. Further research is needed to better understand the potential role of IAG, development of career management skills and use of personal development plans in supporting progression in, as well as transition into, the labour market; and how best to integrate this within the skills and employment system.
- Longer term (two to five years) assessment of the cost-effectiveness of interventions which support the development of skills, develop career aspirations and provide post-employment support so that UK policy makers can decide how best to deploy and align welfare to work and skills resources that deliver both short-term job entry outcomes and longer term sustainable progression.

## **Conclusions**

We argue that there is a need for an aligned approach that binds work and skills together as a lifelong process. Which comes first - work or training - is contingent upon a range of supply and demand side circumstances at play at a point in time and place. The concept of career development has a key role to play in raising aspiration whilst career management skills are key to enabling individuals to then take action. A long-term view is required to deal with both the short-term barriers to learning and work: and provide a framework for sustained progression. Employers, individuals and stakeholders must each have a role if the opportunities for progression are to be realised for those at risk of labour market exclusion and those with low skills working in low paid jobs.

# 1 Introduction

This study is part of the UK Commission for Employment and Skills (UK Commission) National Skills Research Strategy in England (2010/11) which seeks to improve the evidence on which skills policy is based. The purpose of the strategy is to enhance and improve skills research and policy analysis, avoid duplication and encourage shared research agendas, encourage greater integration between research and policy development and to build bridges between the policy and research communities.

This study is shaped by the recognition that while there has been a great deal of policy development around the transition from unemployment and inactivity to employment over the last decade, policy has not been sufficiently informed about how best to nurture sustainable employment for those at risk of labour market exclusion. There remain challenges associated with for example, the cost-effectiveness of Active Labour Market Measures, the 'low pay no pay' cycle, access to training and the balance between economic and social interests in the labour market. As a consequence, the opportunities for sustainable progression and upward social mobility remain unrealised for many workers in lower paid occupations.

## 1.1 National policy context

Government policy towards welfare to work and skills is heavily influenced by the requirement to cut the deficit caused by the economic crisis. Coalition policy is founded upon three principles; fairness (focusing resources on those in greatest need), responsibility (requiring employers and individuals to share the costs of their training), and freedom (removing central planning and targets for skills and qualifications). The government seeks to rebalance the economy and support sustainable growth and enterprise whilst at the same time promoting social mobility. With regard to Welfare to Work, policy sits in Westminster however the system interacts with devolved policy areas such as skills in the Devolved Administrations. The government published its White Paper 'Universal Credit: Welfare that Works' to pave the way for welfare reform (Department for Work and Pensions, 2010). Jobcentre Plus have extended freedom to use discretion to tailor solutions to need; and, if needed, can offer this support from day one of unemployment. The Work Programme has emerged as a replacement for a range of programmes delivering support to those who are most in need of additional help to get back into work: referral points differ by customer group. Through non-prescriptive contracts the Work Programme will provide a strong incentive for providers to deliver results and provide the flexibility to determine the most appropriate way to deliver personalised local solutions.

The coalition government's recent Skills Conditionality strategy promises to empower Jobcentre Plus and its partners to direct claimants of both Jobseeker's Allowance and Employment and Support Allowance to compulsory skills provision prior to and during Work Programme participation. An extensive and complex client group will be directed towards skills provision and it is essential that equality and diversity are embedded within the range of services available.

Skills in the UK is a devolved policy area and while there is variation in aspects of the focus, priorities and delivery mechanisms the overarching aims of skills policy are broadly similar across the four nations. The trajectory of skills policy in England was set by the Department of Business Innovation and Skills which published its Skills Strategy, 'Skills for Sustainable Growth' in 2010. It heralded radical changes to the skills infrastructure abolishing a number of agencies (including the Regional Development Agencies, BECTA and the Qualification and Curriculum Development Agency) and announced a streamlining of the role of the Skills Funding Agency and other planning and funding bodies along with a 'refocused' role for both the UK Commission and the network of Sector Skills Councils in deciding the national focus of skills and qualifications development. The major intervention to support in-work training (Train to Gain) has been withdrawn and replaced with co-funding of all skills training above Level 2 for those over 24. A system of loans (on a similar basis as those for Higher Education) will be introduced from 2013. Young people aged 19 up to 24, unemployed people, and the low-skilled will continue to be fully funded. The Strategy reinforces the role of skills in supporting the transition from benefits to employment noting that 'it is essential that those without employment are helped to gain the right skills to find sustainable work with the prospect of progress' (BIS, 2010, p. 8). The strategic connections with the Work Programme are made and the development of flexible funding models 'will enable Work Programme providers, where they identify an outstanding skills barrier to work, to refer clients to the flexible skills training on offer locally' (BIS, 2010, p. 33).

Skills policy continues to develop in the Devolved Administrations and be guided by the relevant strategies in Northern Ireland (DELNI, 2006<sup>3</sup>), Scotland (Scottish Government, 2010) and Wales (Welsh Assembly Government, 2008). These strategies include principles, themes and policies which reflect the interests of each nation and in common with the skills strategy in England they pursue the twin aims of (i) an internationally competitive skills-base with a workforce equipped to compete in the labour market and drive economic growth; (ii) the acquisition of skills as a key way of improving social inclusion and social mobility.

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<sup>3</sup> the update of which, [Success Through Skills 2](#) is currently in consultation.

There are important potential benefits associated with the continued support for aligning Employment and Skills agenda to encourage the transition from benefits to sustainable employment and progression in the labour market. 'Integrating Employment and Skills', an initiative launched by the previous government in 2008, has been central to efforts to improve co-ordination between DWP/Jobcentre Plus-supported employability and welfare to work services and skills and careers services. Trial areas in England saw extensive new partnership working between Jobcentre Plus and skills providers (funded through the Learning and Skills Council and its successor Skills Funding Agency), which introduced the implementation of Skills Health Checks, close collaboration with Nextsteps careers advisers and improved joint-working with training agencies. However, an early evaluation has pointed to problems in ensuring co-ordinated employability and skills provision (Levesley *et al.*, 2009). It concluded that considerable progress had been made in joining up the services and that more needed to be done to ensure a seamless journey through the whole system. The Skills for Sustainable Growth strategy notes the importance of building on effective 'Nextsteps'<sup>4</sup> careers provision and there is a case to be made for the much clearer alignment of welfare to work, training and careers services.

A policy priority for the coalition government is associated with localism. A key element of partnership-working on skills and welfare to work relates to the value of engagement with local stakeholders and it will be for localities to align their services. Across leading 'active' welfare states, there has been a shift towards the localisation of welfare to work strategies (Daguerre and Etherington, 2009; Lindsay and McQuaid, 2009). The UK's relatively centralised form of governance has meant that devolving welfare to work to the local level has been more gradual here than in many other EU states (Atkinson, 2010). Indeed, Crighton *et al.* (2009) suggest that welfare and employment has been the major domestic policy area that has proved most resistant to localisation in the UK.

In December 2010, the Localism Bill was introduced to Parliament by the Secretary of State for Communities and Local Government. It contains a range of measures to devolve more powers to councils and neighbourhoods and give local communities greater control over local decisions like housing and planning. While this development is not expected to have major implications for the development and delivery of welfare to work and skills related interventions it may provide communities with a further opportunity to influence local provision (DWP, 2011). The Work Programme's more flexible funding model promises greater freedom for Jobcentre Plus and partners to deliver targeted local solutions, but there may be much to learn from other EU countries (such as Denmark and the Netherlands) where there has been much more extensive devolution of budgets, management and decision making on provision. One of the critical success factors

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<sup>4</sup> The former "Nextstep", adult careers service was rebranded and launched as "Next Step" in August 2010

associated with the integration of the welfare to work and skills systems and the benefits it brings to those making the transition from benefits to work will be the extent that Local Employment Partnerships can harness the resources and facilitate further moves towards decentralised management and delivery of joined-up services.

The recent review of Employment and Skills (UK Commission, 2011a) charts the development of the employment and skills systems in England with a focus on identifying how public spending on employment and skills could be spent more effectively to move individuals into employment and to progress in work. The review (which was published towards the end of this study) provides a number of recommendations and ideas which are not prescriptive but are ways that stakeholders can take forward to achieve better outcomes. These recommendations include:

- Enhance employer engagement – improving the capability of local partners to engage with employers (particularly SMEs) and therefore increasing the number of individuals moving into work with the opportunity to progress.
- Greater clarity – making roles and responsibilities easier to understand and therefore easier for all to engage with.
- Achieve better for less - securing positive cost-benefits by either accelerating improved performance or securing better outcomes for public investment.
- Collective responsibility – acknowledging that outcomes are not the responsibility of central government alone but of all local partners, individuals and employers.
- Equality - promoting fairer and more equal employment and skills systems with greater accessibility for all.

In April 2011 the coalition government launched a 'Strategy for Social Mobility' (HM Government, 2011) which highlighted the creation of an open socially mobile society as a policy priority. The strategy highlights the role of the labour market in supporting social mobility and identifies that too many people struggle to progress, being held back by low qualifications or a welfare system that does not sufficiently incentivise work. A set of indicators have been established to track progress which include employment and participation in education of 18-24 year olds, progression to further and higher education and new measures of labour market progress including access to the professions, progression in the labour market and the availability of 'second chances' (opportunities to retrain) to succeed in the labour market.



## **1.2 The aims and objectives of this study**

The Department for Work and Pensions (DWP) and the then Department for Education and Skills worked jointly to review the evidence on the role of skills in helping people move off benefits and into work. The Departments published a joint evidence paper in 2007 (Department for Education and Skills and Department for Work and Pensions, 2007). This paper concluded that although employment-focussed programmes were the most effective at getting people into work, the jobs they entered tended to be low-skilled and low paid.

The aim of this study is to further develop the evidence base and in particular

- to review the evidence of the role of up-skilling as a lever in helping people to make the transition from benefits through entry-level<sup>5</sup> employment to sustainable career progression.

The objectives outlined in the Invitation to Tender are:

- to review evidence on the quantity and quality of low paid work;
- to review the evidence on the role of pre-employment training in helping people move from benefits into low-paid work;
- to look at the types of training that are most successful in helping people to enter employment, taking evidence from the UK and abroad;
- to review the evidence on the role of upskilling in moving people out of the 'low- pay no- pay' cycle and into sustainable jobs with progression;
- to make recommendations for future policy developments which might enhance sustainability and progression – with due reference to the context of planned changes to the welfare system and the introduction of the Work Programme;
- To identify gaps in knowledge and cost effective means of addressing these.

## **1.3 Key concepts**

Some issues arise surrounding the definitions of key concepts underpinning this study most notably associated with 'skill', 'low pay' and 'sustainable jobs with progression'; these are outlined overleaf.

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<sup>5</sup> For the purpose of this study entry level means low skill/pay

### 1.3.1 'Skills'

'Skills' are a multi-dimensional and a contested concept. They may be seen in terms of social attributes, general education, training, qualifications levels and technical skills (Ashton and Green, 1996). Others point to the different uses of the word 'skill' including:

- Competence to carry out tasks successfully (and skill utilisation);
- Generic and widely applicable skills and firm specific skills for particular contexts.

The relationship between skills and qualifications is particularly relevant as qualifications are seen as the most common measure of skills in the economy (Leitch, 2006). Human Capital Theory suggests that education raises productivity and generates returns to the individual and the economy (Becker, 1964). Up-skilling is seen as a win-win solution and it is commonly agreed that up-skilling lies in the interests of individual employees, as well as employers and, indeed, society at large. Higher qualifications are generally viewed as a passport to success in the labour market and provide access to 'better quality jobs' with higher remuneration. Economic theory suggests that education acts as a signal to employers in the recruitment process about the types of personal characteristics and aptitudes of an individual (Bosworth *et al.*, 1996). The assumption is that higher level qualifications require a more serious and longer-term commitment on behalf of individuals indicating an aptitude for hard work, and ability to commit over a period of time and meet social expectations about working within authority structures, meeting deadlines and time keeping.

However the attainment of qualifications has generally not been a feature of welfare to work interventions in England. Several prominent studies have shown that people applying for low-paid, low-skilled work are expected to display a range of employability skills. These skills are increasingly part of the qualifications frameworks at school and in further and higher education. However these 'employability skills' are not solely defined by the skills and attributes of individuals but also include other factors such as personal circumstances, labour market demand and institutional context which act on both the demand and supply side of the labour market (McQuaid and Lindsay, 2005). For the purposes of this study, the starting point is to consider employability skills as 'the set of basic/generic skills and attitudinal / behavioural characteristics that are believed to be essential for individuals to secure and sustain employment, and also to progress in the workplace' (UK Commission, 2010e). The report investigates the variability in meaning and interpretation of employability skills and how far intervention and employers needs are matched.

### **1.3.2 'Low paid' and 'low skilled' work**

The availability and nature of jobs for those seeking to make the transition from unemployment or inactivity is a critical success factor associated with successful labour market intervention. This study focuses on 'low paid' and 'low skilled' work in the economy which also brings its own definitional challenges.

Definitional issues associated with what constitutes 'low paid work' are an important element in framing policy discourse and assessing the quantity and quality of low paid work. The official definition calculates low pay from a derived hourly rate of pay by dividing total earnings by hours worked (National Statistics, 2009) and recent publications have placed particular emphasis on those jobs paid less than the National Minimum Wage (NMW).

The second definition of 'low pay' is based on the incidences or proportions of workers falling below a certain pay threshold, rather than an implicit definition of low wages as being related to the NMW. The Organisation for Economic Co-operation and Development (OECD) defines low pay as gross hourly earning less than two-thirds of the median hourly wage for all employees and this definition is widely used across the spectrum of low pay literature (OECD, 1996).

A common way to differentiate 'low-skilled' workers is to use pay levels since low skills and low pay are often related and in this case low paid work and low skilled work becomes synonymous. In the majority of cases, the income of 'low-skilled workers' is below the median rate of pay, which is why they can be described as 'low-paid workers'. However not all low qualified workers are low paid (witness some high profile entrepreneurs who left school early with no or few qualifications) and not all low paid workers are low skilled (e.g. the professional IT consultant who works very short hours on an intermittent basis). A further conceptualisation adopted by some analysts is based on the type of occupation associated with low skilled work with those working in for example elementary occupations often classed as low skilled.

A further dimension of low paid and low skilled work is job quality. The nature of the work environment is crucial here in terms of for example the opportunity to develop new skills and/or job security and tenure. Other benefits such as pension entitlements and various non-wage or non-work benefits may also be associated with job quality.

An inclusive approach is adopted to the conceptualisation of low paid and low skilled work in this study. This enables a wide range of literature to contribute to the evidence base. The narrative in the report makes reference to the definition of low skilled and low paid work underpinning the relevant analysis.

## 1.4 Sustainable progression

The concept of sustainable progression is open to multiple definition and interpretation.

The National Audit Office describe *sustainable employment* as

an individual remaining in work either in one job or by moving to other jobs but sustainable employment also means work that provides opportunities to advance and earn more (NAO, 2007, p. 7).

This definition implies progression through work coupled with the opportunity to advance and earn more. It ties in with government policy which recognises that job entry alone is not a sufficient outcome if poverty and well being is to be reduced and social mobility is to be realised.

In this study we use the concept of 'a career' to explore progression from low pay towards sustainable jobs with progression. A traditional career may be seen as a succession of related jobs within an organisation arranged in a hierarchy which people move in a predictable sequence (Wilenski, 1960). Individuals who work hard and demonstrate loyalty to the organisation can anticipate that they will be rewarded with a career that includes support, development, promotion and long term job security (Hind, 2005). More recently the concept of career has evolved as the economy and labour markets have changed in response to developments in technology, changing production methods, competition and globalisation. The 'new' models (sometimes known as Protean or 'boundaryless' careers) have shifted thinking away from the traditional career founded on vertical success and employment stability into one which involves greater job mobility (Hall, 1976). An underlying theme of these 'new' career models is that increasingly a worker's job security is not anchored in a particular organisation but in their own portable skills and employability. For some, this shifts responsibility for development onto individual workers who are ultimately responsible for pursuing and managing their self-interested careers (Ballout, 2009). How individuals plan and manage the development of their careers becomes a key factor in successful progression.

Career development is the lifelong process of managing progression in learning and work. The quality of this process significantly determines the nature and quality of individuals' lives, the kind of people they become, the sense of purpose they have and the income they earn. It is identified as important for effective learning and clearly connects personal development and the acquisition of skills with opportunities in the labour market. If individuals make decisions about what they learn in a well informed way which is linked to their capacities, interests and aspirations, they are likely to be more successful in the labour market. Career development is also important to support workers finding the jobs and career paths which utilise their potential and meet their goals. In this case they are likely to be more motivated and therefore more productive at

work. Career development also has an important role to play in enabling everyone to develop aspirations and provide access to opportunities that might otherwise have passed them by. Commitment to a career, the degree to which workers are motivated to work in a chosen career role, is a key determinant of career success (Ballout, 2009).

Individual differences and situational characteristics are important predictors of career development that positively affect the worker's motivation to learn and develop new skills. As we shall see, those who have a sound educational foundation, positive attitudes towards work, sound health and a job with an employer who supports personal development have a far better chance of success than someone with no qualifications, a limiting disability who is working for an employer with no interest in their personal development. The 'new' models of career progression link success to a flexible and adaptive approach to labour market progression in which the emphasis is on maintaining employability through inter-organisational moves, lifelong learning, a transactional psychological contract and career self-management (Inkson, 2006). Contemporary careers (and careers in the future) are more likely to include periods of work (including self-employment) and non-work, lateral, spiral and vertical progression and intra- as well as inter-organisational moves. Some argue that the concept of job security has been replaced by the concept of employability (Clarke, 2009) with employability skills an essential requirement for those making the transition from benefits into work, for individuals seeking to make successful careers and for organisations seeking to perform effectively in a highly competitive environment. The concept of careers provides a useful framework to analyse in work progression. However most studies focus on those members of the workforce with higher skills in the labour market (e.g. graduates or professionals) rather than those with low skills (Hennequin, 2007). For many low skilled people, employment and career options are severely limited at an early stage of the life cycle. Those that leave compulsory education with few if any qualifications face severe difficulties in succeeding in the labour market. They may struggle to develop the career assets which provide the foundation for successful progression. While highly educated people have an opportunity to pursue a variety of entry and progression routes, those with low or no qualifications have limited choices in pursuing a career and opportunities for entry and subsequent progression to 'better jobs' is often limited.

## **1.5 Methodology**

The methodology underpinning the study is predominantly based on a literature search and review of the research and evidence base post 2005. This is supplemented with the development of four international case studies (Australia, Denmark, Germany, United States) and an e-consultation with experts.

## **1.6 Report structure**

The report is structured as follows:

- The economic and labour market context and low paid work (Chapter 2);
- Skills and the transition from benefits to employment (Chapter 3);
- Success factors (Chapter 4);
- Skills and progression in work (Chapter 5);
- Summary and implications for policy and research (Chapter 6).

## **2 Economic and labour market context**

### **2.1 Introduction**

This section of the report provides an overview of the economic context for low pay and low skilled work. It highlights the process of industrial restructuring which continually affects labour markets and job change across occupations, sectors and geographical areas. It places low paid work in context and highlights the need for a continuing commitment among policy makers to promoting opportunities in the labour market as a means of progression and alleviating poverty and encouraging social mobility.

### **2.2 Industrial restructuring**

Muriel and Sibieta (2009) showed that elementary occupations (low skilled) were hardest hit in the early part of the recession (2008-09), with an increase in unemployment of nearly five per cent. Skilled trades and sales occupations have seen unemployment rise by four per cent; however unemployment for managers and senior officials had increased by only one per cent and white collar professional employment by only 0.7 per cent. These suggest that employers were keeping higher skilled workers on as they would be needed once any recovery took place (so in a prolonged recession more such skilled workers and managers may become redundant). Brinkley (2009) argues that the recoveries of the 1980s and 1990s were driven by increased employment in knowledge intensive jobs which are filled by people with technical and business skills, in contrast to the unskilled and manual workers who are currently losing their jobs. Furthermore, future jobs growth (due to longer term industrial restructuring) is likely to be in knowledge based industries such as advanced manufacturing, high tech and business services, and non-taxpayer funded education and health care services, and the employment effects of the current public sector cuts are still uncertain. One of the risks of recession is that the unemployed drift into long term joblessness with significant reductions in employability, human capital, skills, and the motivation and ability to upgrade skills, making them far less attractive to employers. Also youth unemployment continues to be a major issue with potentially long term 'scarring' of a young person's employment and skills trajectories for possibly decades (Bell and Blanchflower, 2010). This suggests a greater need for re-training and up-skilling for those on benefits and seeking to make the transition to work and progress in the labour market.

### 2.3 Labour market polarisation

UK policy makers have expressed concerns regarding the apparent emergence of an increasingly polarised British labour market since at least the 1980s.

Gallie (2007) sums up the debate, starting around the early 1960s, around polarisation as reflecting concerns about the emergence of separate primary and secondary sectors of the labour market, with the former containing higher skilled, better paid and more secure jobs that (crucially) provide opportunities for progression and development. Labour market (or job polarisation) occurs when the economy is structured around increasing levels of skilled jobs and unskilled jobs. At the same time the levels of average and medium skilled jobs decline (Fauth and Brinkley, 2006; Cedefop, 2011). Some studies have questioned the validity of the polarisation thesis – for example, Holmes (2010) uses UK NCDS data to track a cohort of workers from the early 1980s to the mid-2000s, and argues that there is little evidence of wage polarisation *within that specific cohort*. However, other studies find clearer evidence of polarisation across the whole of the labour force. Hence further analysis of polarisation, and how it may vary according to industry (for instance, by sector and by growth or declining industries).

For example, successive studies identified evidence of an ‘hourglass economy’, defined by the polarisation of a large group of skilled/qualified workers with access to continuous development, and growing numbers of unskilled people ‘at the bottom’ facing deskilling or stagnation (Goos and Manning, 2007). Recent analysis using Luxembourg Income Study data has noted that the UK, along with other Anglo-Saxon welfare states such as Canada and the United States, has among the highest proportion of low-paid workers in OECD countries (defined as those working full-time, and earning less than two-thirds of median earnings) and have a relatively smaller ‘middle’ to the ‘hourglass’. It is suggested that this may reflect ‘less interventionist’ minimum wage policies than are found in some other European countries (LaRochelle-Côté and Dionne, 2009). At the same time in the US and the European Union, while opportunities for those in high skilled jobs have increased there has been a decline in the number of white- and blue-collar middle skilled jobs (Autor, 2010). However, there are critiques of the ‘hourglass economy’ thesis with Anderson (2009) arguing that it ignores changes to intermediate occupation and does not acknowledge that total employment shares have remained stable within this group.

In terms of the implications of this ‘hourglass economy’ for this study there are two issues facing low skilled workers: (i) the gap between low and high skilled workers; and (ii) the difficulty in progressing from one group to another.



There may be a number of different, but inter-related, drivers of polarisation. It has been suggested that in 'liberal' economies such as the UK, persistent wage inequality has resulted in increasing demand for low level service work i.e. a low-skilled, low-paid 'service class' of workers is increasingly required to provide the services demanded by high-skilled workers with a substantial disposable income to spend (Manning, 2004). Others have pointed to the outsourcing of medium-skilled manufacturing (and now increasingly customer service) jobs to cheaper labour markets (Bain and Taylor, 2008).

Finally, it has been suggested that the main impact of new technologies has been to replace routinised, medium-skilled employment (especially in manufacturing) so that labour markets are increasingly dominated by high-skilled and low-skilled jobs, which for different reasons cannot easily be automated (Autor *et al.*, 2006). Autor (2010) argues that technological change and the resulting hollowing out of internal labour markets has therefore seen middle-skilled jobs that can be 'programmed' or automated disappear at a faster rate than low-paid, unskilled work. This process limits the opportunities for those in the lower levels of the hierarchy to progress through the intermediate and middle levels.

The pervasiveness of polarisation across different national labour markets appears to suggest that this *relative* decline of routinised jobs in the 'middle' is indeed key to understanding job polarisation (Goos *et al.*, 2009). However, the UK appears to be one of the outlier nations that have encountered particularly strong polarising trends. For example, Goos and Manning (2007) argue that evidence of polarisation in job quality is clear in the UK, noting that LFS data from the late 1970s and mid 2000s demonstrate jobs growth in the top and bottom deciles of the wage distribution, but contraction in the middle. Tåhlin's (2007) review of European Social Survey data for 2004 compares occupational skills polarisation in the UK, along with Germany, France, and Sweden. Tåhlin argues that the UK stands out as having seen an increase in polarisation over the preceding thirty years, due to the rapid growth in low-paid service work, combined with a decline in (well-paid) production jobs. Of the countries in Tåhlin's study only the UK has also seen an increase in polarisation within women's work.

Oesch and Rodriguez Menes (2011) support Tåhlin's (2007) conclusions. They use LFS and equivalent data comparing occupational change in the UK with Germany, Spain and Switzerland. They find that between 1991 and 2008, the greatest decline in occupations in the UK occurred in middle-ranked jobs in terms of pay and skills, much more so than in countries such as Germany and Spain. Oesch and Rodriguez Menes (2011) note, however, that all their subject countries experienced a substantial growth in the share of the labour market covered by higher skilled jobs.

For Oesch and Rodriguez Menes:

the polarised pattern of occupational upgrading observed for Britain... is thus consistent with the idea that technology is a better substitute for the routine tasks typical of mid-range production and office jobs than for the non-routine tasks characteristic of low-paid interpersonal service jobs (Oesch and Rodriguez Menes, 2011, p. 26).

However, their study also finds substantial cross-country differences, noting that low-paid interpersonal service jobs have expanded significantly in Spain and the UK, but stagnated in countries like Germany and Switzerland.

It has been suggested that in the UK, labour market policy and wage setting institutions may reinforce these processes. Johnson *et al.* (2010) suggest that for people who are in work, and in particular those with lower skill and qualification levels, support appears to be particularly effective when it occurs at the workplace, including through Union Learning Representatives or other learning 'champions'. The relatively low levels of trade union presence and collective bargaining in lower skilled sectors in the UK has resulted in a 'less compressed wage structure' than found in economies such as Germany. "Hence, occupational polarisation due to low-wage service job creation seems most likely in Britain and least so in Germany" (Oesch and Rodriguez Menes, 2011, p. 6) and LFS data from the 1990s and 2000s confirms the growing importance of low-paid inter-personal service jobs as a proportion of the total UK labour market. This is not to say that low-skilled work is increasing, but rather that the greatest decline in job opportunities in the 1990s and 2000s took place in the middle of the labour market: "employment declined more strongly in average-paid jobs (among clerks and production workers) than in low-paid ones, where inter-personal service workers cluster" (Oesch and Rodriguez Menes, 2011, p. 25). This has implications in terms of the up-skilling of low skilled workers as there may not be the positions available in the middle of the labour market for low skilled workers to make transitions into.

## **2.4 Trends and characteristics of low paid work in the UK**

Despite the move towards the 'knowledge economy', low pay and low skilled work remains a major component of the economy. It is argued that the UK, or particular sectors or geographical areas, may be 'trapped' in a low skills equilibrium or following a low skills trajectory, which presents a problem of relatively low demand for skills by some UK employers and hampers competitiveness (UK Commission, 2009a). A low skill equilibrium exists where a substantial part of the economy uses low skills to produce relatively low specification goods and services, which are sold on the basis of low price, and which then support large numbers of relatively low-paid jobs. This has implications in terms of the decreasing quality and increasing relative quantity of low paid or low skilled

work which in turn has implications for those seeking to progress in the labour market (see previous discussion of the ‘hourglass’ structure of employment).

There has been a sustained increase in the incidence of low pay between the mid-1970s and mid 1990s. Since then, the likelihood of being in low paid work (and by implication low skilled work) has remained largely constant. The sustained increase was part of a general increase in earnings inequality in the UK economy during this same period. Much of this increase was accounted for by changes at the top and bottom ends of the pay distribution. From the mid-1990s, levels of earnings inequality increased at a slower rate, culminating in a more stable situation over the last five years<sup>6</sup>. Nevertheless, this increase in earnings inequality has seen the proportion of the UK low paid<sup>7</sup> (22 per cent) rise to a level close to that of the US (25 per cent) and considerably higher than some European countries such as Denmark (8.5 per cent) and France (11 per cent) (Mason and Salverda, 2010).

### **2.4.1 Low pay and place**

In terms of the likeliness of being low paid, place is significant at the national, regional and sub-regional level. Annual Survey of Hours and Earnings (ASHE) data reveals that workers in the North East of Britain are most likely to be low paid and their counterparts in London the least likely. In their analysis of ASHE data, Cooke and Lawton (2007) reveal a relatively even distribution in the rates of low pay across the regions and nations of the UK. They report that in 2006, 11 of the 12 regions and nations of the UK had levels of low pay of between 20 and 27 per cent; the exception being London with a low pay rate of 11 per cent. In 2006, the North West and the South East contained the largest proportion of low paid workers. Yet, these regions only accounted for 12 per cent of all low paid workers. London is something of a paradox: its relatively low incidence of low pay in 2006 was combined with by far the largest level of median pay, yet more low paid jobs than Wales, Northern Ireland and the North East, and the biggest gap between the highest and lowest paid workers of all the regions and nations. Moreover, while London was the region with the lowest proportion of low paid workers, its intra-regional pay gap was the largest by some margin. By contrast, the North East, the region with the highest proportion of low paid workers, had the lowest intra-regional variation<sup>8</sup>.

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<sup>6</sup> For a discussion on the increase in earnings inequality, see: Felstead, Gallie and Green, 2002; Prasad, 2002; De Santis, 2003; Machin, 2003.

<sup>7</sup> Pay that is less than two thirds of the gross hourly median wage.

<sup>8</sup> Cooke and Lawton state that the heterogeneous combinations of incidences of low pay, working patterns and pay gaps across the regions of the UK underline the significance of local labour market circumstances – particularly the spatial distribution of different industries and occupations, among which levels of low pay vary substantially.

Gibbons *et al.* (2010) have presented evidence on the nature, scale and evolution of economic disparities in Britain. They focus on wages as they are linked to productivity and they consider that variation in pay is an important cause of variation in income. Utilising micro data on workers' wages, linked to their place of work, the authors found that wage disparity across areas is persistent, and while area effects play a role in disparity, most of it is due to individual characteristics (or sorting<sup>9</sup>). Indeed, their findings suggest that area effects contribute a small percentage to area disparities and a very small percentage to total variation in wages.

In considering how sorting impacts on disparity across areas, Cox *et al.* (2010) found two factors consistently emerging in their analysis of improvement and decline in deprived neighbourhoods: residential sorting and the internal or external relationships of a neighbourhood. Their findings point to a situation where if policy focuses exclusively on individuals, those with more resources and choices will move to other, 'better', neighbourhoods unless they can identify positive reasons to stay. This results in those with the fewest choices and the most disadvantaged remaining, leading to deeper concentrations of deprivation. Further, the extent of social networks, the strength and nature of social capital, the vibrancy of local voluntary sector organisations, the links between residents and the wider area, and the links between community leaders and decision-makers all influence the general community outlook of areas.

#### **2.4.2 Low pay and gender**

A substantially higher proportion of women are low paid in the UK than their male counterparts (see Table 2.1). And while the extent of low pay for women has remained largely stable since the mid-1970s, there has been a constituent increase in the incidence of low pay for men, among full-time workers, and in all age groups (Lloyd and Mayhew, 2010). However, there remains a continued concentration of women in relatively low paid occupations that are predicted to remain important and potentially expand in future years. This issue manifests in the gender pay gap for part-time work (where women predominate): at 41 per cent compared to 13.8 per cent for full-timers (Grimshaw and Rubery, 2007; Palmer *et al.*, 2007). Among low paid individuals working full-time there are as many low paid men as low paid women.

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<sup>9</sup> Sorting in this context refers to spatial wage disparities being traced back to differences in the skill composition of the workforce. That is, workers with better labour market characteristics tend to agglomerate in the larger, denser and more skilled local labour market (see Combes *et al.*, 2005)

**Table 2.1 Incidence of Low-Paid Employment in the UK Economy, 2005, by Gender**

	1995	2005	1995	2005
<b>Total</b>	22%	20.8%	36,770	55,982
<b>Male</b>	14.3%	15.1%	18,182	26,709
<b>Female</b>	30.2%	26.6%	18,588	29,273

Source: Mason et al. (2008) Table 2.2. Note: these figures are estimates based on Labour Force Survey (LFS) data. The LFS is a quarterly survey of 60, 000 households and individuals within those households. It differs substantially from the Annual Survey of Hours and Earnings, which is administered through employers. The incidence of low paid employment is calculated as the number of people earning below two-thirds of median hourly earnings.

The most recent data available (Table 2.2) shows the numbers and proportions of female and male employees (aged 22 or over) who were low paid between 2006 and 2010. These figures confirm the continued gendered dimension of low pay in the UK.

**Table 2.2 Proportion of Low Paid Employees by Gender**

Year	Millions		Proportion	
	Men aged 22 to retirement	Women aged 22 to retirement	Men aged 22 to retirement	Women aged 22 to retirement
<b>2006</b>	1.2	2.5	10%	22%
<b>2007</b>	1.2	2.5	10%	22%
<b>2008</b>	1.3	2.6	11%	22%
<b>2009</b>	1.2	2.5	10%	21%
<b>2010</b>	1.3	2.4	11%	20%

Source: The Poverty Site, <http://www.poverty.org.uk>; Note: Calculations based on ONS estimates; UK; updated Dec 2010<sup>10</sup>.

### 2.4.3 Low pay and sector

Low paid work in the UK also predominates in certain sectors. Low-paying sectors are those industries or occupations with a large number, or high proportion, of minimum wage workers. The analysis by Mason *et al.* (2008) suggests that low pay is apparent in all sectors of the economy but far more prevalent in some than in others (Table 2.3). Retail, Health Services and Hotels and Restaurants sectors account for more than half of the low paid workers in the economy and employ the highest proportion of low paid workers.

<sup>10</sup> These figures are based on an estimate of two-thirds median hourly earnings being £7 per hour in 2011. Below £7 per hour in 2010 deflated for the average rise in earnings. The tables and estimates from [www.poverty.org.uk](http://www.poverty.org.uk) are informed by the annual Joseph Rowntree Foundation's 'Monitoring Poverty and Social Exclusion' reports and are used by a considerable number of government bodies, universities, local authorities and third sector organisation.

**Table 2.3      Distribution of Low-Paid Employment in the UK Economy, 2005, by Sector**

<b>SIC Code</b>	<b>Sector</b>	<b>Total Low-Paid Employees in UK Economy (%)</b>	<b>Employees in Sector Earning Below Low-Pay Threshold (%)</b>
<b>52</b>	Retail	26	49
<b>85</b>	Health services	13	18
<b>55</b>	Hotels and restaurants	12	59
<b>15-37</b>	Manufacturing	9	13
<b>80</b>	Education	8	16
<b>90-93</b>	Social and community services	7	29
<b>74</b>	Cleaning, security and miscellaneous business services	6	18
<b>60-64</b>	Transport and Communications	5	13
<b>50-51</b>	Wholesale	5	22
<b>45</b>	Construction	3	13
<b>65-73</b>	Other private services	3	8
<b>75</b>	Public administration	2	6
<b>01-14; 40-41</b>	Other industries	1	15
	Total	100	21

Source: Mason et al. (2008) Table 2.2. See Table 2.1 note.

From their analysis, Cooke and Lawton (2007) identified five industrial sectors that accounted for 70 per cent of all workers in 2006: manufacturing, education, health and social work, business, and retail. Aside from the retail sector, proportions of low paid workers in each of these industries were clustered between 10 and 20 per cent. They also found significant variations within industrial categories. For example, in higher-level manufacturing (electrical and optics, publishing and printing, metals and transport equipment) the rates of low paid workers were all below 15 per cent. Yet, in lower-value manufacturing (food, beverages and tobacco, wood, textiles, rubber and plastics) the incidence of low pay was between 22 and 34 per cent.

Using slightly different sector classifications, the most recent data (Low Pay Commission, 2011) indicates that there has been little or no change in the proportion of low paid employees in sectors such as retail & wholesale and hotels & restaurants (Table 2.4). The analysis identifies the highest proportion of low paid workers to be located in sectors such as hairdressing, cleaning and hospitality.

**Table 2.4      Distribution of Low-Paid\* Employment in the UK Economy, 2010, by Industry**

Industry	Total Low-Paid Employees in UK Economy
Retail & wholesale	28%
Hotels & restaurants	13%
Manufacturing and other production	14%
Private sector services	15%
Public sector: admin	2%
Public sector: education	9%
Public sector: health	12%
Community services	7%
Total	100%

Source: *The Poverty Site; Labour Force Survey, ONS; the data is for 2010; UK; updated Mar 2011.* \* Below £7 per hour in 2010 deflated for the average rise in earnings. See note to Table 2.2.

#### **2.4.4 Low pay and occupation**

In general, in the low pay literature the type of job individuals hold (and the industry or sector they are employed in) are recognised as significant factors affecting the likelihood of being low paid. Table 2.5 shows the incidence of low pay in the UK in 2005, analysed by occupational category with the most recent data providing a further breakdown in terms of gender (Table 2.6).

**Table 2.5      Incidence of Low-Paid Employment in the UK Economy, 2005, by Occupational Category**

Occupational category	1995	2005	1995	2005
Manager	6.7%	5.0%	5,315	8,222
Professional	2.8%	2.5%	3,867	7,335
Associate professional	5.7%	5.0%	3,475	7,989
Administrative and secretarial	16.4%	14.2%	6,310	7,916
Skilled trades	17.9%	18.1%	3,536	4,372
Personal services	40.0%	35.9%	4,264	4,693
Sales occupations	49.8%	54.0%	3,135	4,629
Operators	22.8%	21.6%	3,572	4,075
Other occupations	50.9%	51.2%	3,229	6,736

Source: *Mason et al. (2008) Table 2.2. See Table 2.1 note.*

**Table 2.6 Low-Paid\* Employment in the UK Economy, 2010, by Occupation**

Occupation	Proportion of employees in the stated group earning less than £7 per hour		
	Full-time men	Full-time women	Part-time
<b>Sales and customer service</b>	30%	39%	69%
<b>Elementary</b>	30%	50%	70%
<b>Process, plant and machine operatives</b>	13%	39%	43%
<b>Skilled trades</b>	8%	30%	43%
<b>Personal service</b>	16%	25%	30%
<b>Administrative and secretarial</b>	7%	8%	19%
<b>All occupations</b>	9%	12%	37%

Source: *The Poverty Site; Annual Survey of Hours and Earnings 2010, ONS; UK; updated Dec 2010. \*Paid less than £7 an hour. See note to Table 2.2.*

As the data indicates, low-paid employment is concentrated in relatively low-skilled occupational groups such as personal services, sales and operative occupations. Importantly, Lloyd *et al's* analysis (2008) of the National Earnings Survey 1992-2002 revealed that mean gross hourly earnings for retail sales assistants, hotel cleaners and food-processing workers in the early 2000s were significantly lower than 10 years previously.

In their consideration of *Who Needs Upskilling?* in the European Union, the European Foundation for the Improvement of Living and Working Conditions (Eurofound, 2008) analysed 'low qualified workers' (workers who have basic education levels) and 'low skilled workers' (workers in elementary occupations). Across the EU27 countries, when low-qualified and low-skilled workers are compared, the proportion of low-skilled workers is significantly higher than the proportion of low-qualified workers (the difference being about 20 percentage points). The most recent data illustrates the clustering of low paid jobs in 'low level' occupations (Table 2.6).



## 2.4.5 Low pay and part-time work

Table 2.7 shows the number and percentage of low paid jobs in the UK in 1995 and 2005, based on Labour Force Survey data. It shows that part time workers are more likely to be in low paid jobs, calculated as the number of people earning below two-thirds of median hourly earnings. Separate analysis of the Workplace Employment Relations Survey 2004 revealed that part-time employment existed in 83 per cent of British workplaces (Kersley *et al.*, 2006). It is disproportionately concentrated in low-paid service and manual jobs (sales and customer service, hospitality, cleaning) and often with very short hours (Women and Work Commission, 2006).

**Table 2.7 Incidence of Low-Paid Employment in the UK Economy, 2005, by Nature of Employment Contract**

Nature of employment contract	1995	2005	1995	2005
Full-time (thirty hours or more per week)	15.5%	14.0%	27,529	42,061
Part-time	43.1%	42.5%	9,216	13,901
Permanent	21.2%	20.1%	34,100	53,136
Temporary	32.7%	32.6%	2,663	2,834

Source: Mason *et al.* (2008) Table 2.2. See Table 2.1 note.

In 2006, an estimated 44 per cent of females were working part-time compared to 10 per cent of males (Olsen *et al.*, 2009). In the same year, over 41 per cent of individuals receiving low pay were women working part-time (Lawton, 2009). Longitudinal analysis reveals that much of the increase in female employment since the 1970s has been in part-time jobs and that the proportion of women who work part-time has ranged between 43-44 per cent since the mid-1990s.

In the UK, part-time employment has long been associated with the onset of motherhood (Duncan, 2006) and a lower proportion of UK mothers return to full-time employment after maternity than some other EU countries and the US. For example, in studying whether women work part-time through preference or constraint, Gash (2008) found that, compared to Denmark and France, the UK exhibited the greatest part-time/full-time difference in labour market transitions, with UK part-timers the least likely to leave part-time jobs for full-time employment. Moreover, relative to these two countries, Gash found evidence of part-time constraint in the UK, which she attributed to the comparative absence of childcare facilities.

There has also been a rise in men working part-time in the UK but there is a broad consensus in the literature that this is associated with structural changes in the economy rather than a change in men's involvement in caring responsibilities. Notable recent developments have been the rapid increase in the pool of students (male and female)

seeking part-time employment, and UK active labour market policies resulting in young and older men working part-time in private services occupations in order to enter employment or to defer involuntary retirement following job loss. Consequently, one-third of male part-timers are now students and another quarter is aged 55 years or older (Fagan, 2009).

The most recent data shows a similar proportion of low paid workers to be women in part-time employment (Table 2.8).

**Table 2.8 Low Paid\* Employees in Full-time/Part-time work, 2010, by Gender**

Group	Number ('000s)	Proportion
Full-time men	800	20%
Full-time women	800	21%
Part-time men	600	15%
Part-time women	1,800	44%

*Source: The Poverty Site; Annual Survey of Hours and Earnings 2010, ONS; UK; updated Dec 2010. \*Paid less than £7 an hour. See note to Table 2.2.*

The relationship between part-time work and low pay is revealed from the evidence showing that there is an identified pay penalty for periods of part-time work and this is pronounced in the UK both in terms of hourly rates for part-timers and the reduced progression in careers and earnings following a period of part-time work (Francesconi and Gosling, 2005; Manning and Petrongolo, 2005). Furthermore, the poor pay situation facing part-time workers is considered a central factor contributing to the gender pay gap. The general poor labour market position of part-time workers is reflected in the fact that they were one of the main categories of workers to benefit from the introduction of the NMW (Rubery and Smith, 2006).

However, despite the fact that many female part-timers still occupy jobs with lower levels of pay and skill than full-timers, recent evidence has revealed that, since the early 1990s, their skill position has improved (Gallie and Zhou, 2009). Drawing on data from the 'Skills Survey' series between 1992 and 2006, Gallie and Zhou tested for three skills measures: the qualification level required for the job; the length of training for the particular type of work currently employed in; and the issue of on-the-job learning. The findings showed that there had been convergence with male full-timers both in terms of the qualifications required for entry into their jobs and the prior training time required. There was, however, little evident improvement in respect of post-entry on-the-job learning which the authors considered may reflect the continuing reluctance of employers to bear the cost of training part-timers.

Further, while the data showed that those women in highest level occupations benefited particularly from the process of upskilling, there was no subsequent evidence of skill polarisation. Female personal service work, traditionally classified as low-skilled, experienced the most striking rise in jobs over the period. The clearest evidence for polarisation was in respect of working hours, with part-timers working longer hours far more likely to have experienced a rise in skill levels than those in shorter hour 'marginal' part-time work. Gallie and Zhou concluded that despite the significant difference in the part-time skill differential over the period 1992 – 2006, a substantial further process of convergence would be needed before part-timers could be regarded as fully integrated. This is perhaps best illustrated by the fact that the rise in the relative skills of part-timers was not reflected in their pay position. Gallie and Zhou could find no evidence of relative pay improvement for part-timers in the fourteen year period of their analysis.

#### 2.4.6 Low pay and age

Data examined by Cooke and Lawton (2007) from ASHE in 2006 revealed that individuals aged under 22 were much more likely to be low paid than those aged between 22 and 29. Table 2.9 (below) based on data from the Labour Force Survey, confirms this and shows that 49.4 per cent of 16 – 24 year-olds were low paid in 2005. Moreover, this compares with a slight fall in the incidence of low pay among older groups. Workers in their thirties and forties were the least likely to be low paid in 2005, whereas incidence of low pay rose again for those aged 50 or over. Moreover, a gender pay gap was evidence for all age groups: the narrowest pay gap being among younger workers (particularly among 18- and 21-year olds); the widest among 40- to 49-year olds.

**Table 2.9 Incidence of Low-Paid Employment in the UK Economy, 2005, by Age Group**

Age Group	1995	2005	1995	2005
<b>Sixteen to twenty-four</b>	46.6%	49.4%	5,413	6,565
<b>Twenty-five to twenty nine</b>	17.1%	16.1%	4,714	5,543
<b>Thirty to thirty-nine</b>	15.4%	13.9%	10,201	14,070
<b>Forty to forty-nine</b>	15.5%	13.9%	9,179	14,965
<b>Fifty to fifty-nine</b>	20.1%	16.2%	5,783	11,588
<b>Sixty to sixty-four</b>	24.5%	24.1%	1,115	2,247
<b>Sixty-five or older</b>	45.2%	40.6%	365	824

*Source: Mason et al. (2008) Table 2.2. See Table 2.1 note.*

Table 2.10 confirms these findings by showing the current dimension of the link between low pay and age in 2010.

**Table 2.10 Low-Paid Employment in the UK Economy, 2010, by Age Group**

	Proportion of employees less than £7 per hour		
	Full-time men	Full-time women	Part-time
<b>Aged 18-21</b>	49%	52%	72%
<b>Aged 22-29</b>	15%	15%	45%
<b>Aged 30-39</b>	5%	7%	28%
<b>Aged 40-49</b>	3%	10%	29%
<b>Aged 50-59</b>	5%	10%	29%
<b>Aged 60+</b>	10%	15%	32%
<b>All ages</b>	9%	12%	37%

*Source: The Poverty Site; Annual Survey of Hours and Earnings 2010, ONS; UK; updated Dec 2010. \*Paid less than £7 an hour. See note to Table 2.2.*

A study investigating occupational segregation between men and women over the long-term revealed it to be evident at labour market entry and then rising sharply from there until the age of 35 (Manning and Swaffield, 2005). The analysis concluded that approximately half of this rise is the result of differentials in receipt of training and differences in labour market attachment – particularly evident from the many instances of women returners from maternity to lower-paid, lower-status, and often part-time work.

In the period since 2005, there was a move in policy towards establishing the necessary foundations to enable the majority of young people to make effective and supported transitions from education or unemployment to the labour market and to create labour market conditions that protect and nurture young people's potential (Unwin, 2010). Despite this changing policy emphasis, in 2010, in England, approximately 177,000 16-18 year olds were officially categorized as NEET (Not in Employment, Education or Training) (Department for Children, Schools and Families, 2010a; Office for National Statistics, 2010a).

There has been somewhat less attention paid to those young people in Jobs Without Training (JWT); those young people who are in full-time work and not in receipt of training which reaches the standard of an NVQ level 2 (or above) qualification. As education and training policy has emphasised strategies that encourage young people to remain in full-time learning beyond compulsory schooling, there has been limited research exploring the structure and functioning of the youth labour market (Anderson *et al.*, 2006; Maguire *et al.*, 2008).

Quantitative evaluation of the Education Maintenance Allowance (which is now closed to new applicants) provided some information regarding the labour market position of school-leavers who enter jobs without training. The data revealed that young people entering the labour market at the age of 16, and who get jobs without training, are much more likely to have few or no educational qualifications. Furthermore, young people entering jobs without training are concentrated in sales process, plant and machine, and elementary and other low paid occupations (Maguire *et al.*, 2008). This suggests both the importance of good training and education before such young people enter employment and once in employment. Those that enter and remain in jobs (or sectors) which offer few development opportunities are unlikely to realise their potential to progress in the labour market.

#### 2.4.7 Low pay, ethnicity and migration

As Table 2.11 shows, workers of Bangladeshi and Pakistani origin are evidently disadvantaged relative to other ethnic groups in terms of pay.

**Table 2.11 Incidence of Low-Paid Employment in the UK Economy, 2005, by Ethnic Origin and Nationality**

<b>Ethnic origin</b>	<b>1995</b>	<b>2005</b>	<b>1995</b>	<b>2005</b>
White	21.8%	20.6%	34,590	51,090
Black Caribbean	16.8%	17.0%	241	454
Black African	21.6%	23.1%	112	429
Indian	27.4%	19.0%	406	939
Pakistani	31.1%	26.9%	112	302
Bangladeshi		30.3%		95
Other Asian	19.3%	26.4%	156	526
Other ethnic	19.4%	22.9%	172	606
<b>Nationality</b>	<b>1995</b>	<b>2005</b>	<b>1995</b>	<b>2005</b>
United Kingdom national	22.1%	21.1%	35,614	39,028
Foreign national	20.7%	23.0%	1,156	3,235

Source: Mason *et al.* (2008) Table 2.2. See Table 2.1 note.

Heath and Cheung (2006) identified significant net disadvantages, or 'ethnic penalties', with respect to unemployment, earnings and occupational attainment experienced particularly by Black African, Black Caribbean, Pakistani and Bangladeshi men in the labour market. The ethnic penalties experienced by Black Africans (both men and women) were found to be especially high. Indians and Chinese tended to be able to compete on somewhat more equal terms than other minority groups, but they too experienced some disadvantage.

The latest data (Table 2.12) reinforces the disadvantages faced by some ethnic groups, particularly those of Bangladeshi and Pakistani origin.

**Table 2.12 Low-Paid\* Employment in the UK Economy, 2010, by Ethnic Origin**

<b>Ethnicity</b>	<b>Proportion of working-age employees who earn less than £7 per hour</b>
<b>Bangladeshi</b>	48%
<b>Black - African</b>	27%
<b>Black - Caribbean</b>	23%
<b>Indian</b>	23%
<b>Pakistani</b>	42%
<b>White - British</b>	25%
<b>White - other</b>	29%

*Source: The Poverty Site; Labour Force Survey, ONS; the data is the average for 2008 to 2010; UK; updated Mar 2011. \*Paid less than £7 an hour. See note to Table 2.2.*

In making their recommendations as to how to reduce these ethnic penalties in the labour market, the authors called for further targeting of policy in both education and active labour market initiatives. However, they stressed the importance of recognising that ethnic minorities' difficulties in obtaining employment are not restricted to those with low levels of education or skills. Ethnic minorities face evident difficulties in gaining employment regardless of their level of qualifications and skills, a situation also revealed by a recent study examining recruitment practices in British cities (Wood *et al.*, 2009).

In a Home Office commissioned report conducted in 2006, Dench *et al.* interviewed employers across London, East Anglia and North-East England concerning the recruitment and employment of migrant workers in the UK. These employers reported relying to a considerable extent on migrant workers – particularly in low-skill sectors. Employers of low-skilled workers reported that labour shortages were a primary reason for recruiting foreign workers.

Any exogenous increase in the supply of labour arising from migration is considered likely to hold down pay levels in the areas of the labour market in which migrants compete (Lloyd *et al.*, 2008). A number of studies (e.g. Coleman and Rowthorn, 2004; Dustmann *et al.*, 2005) have concluded that the aggregate economic effects of immigration are likely to be negligible but that there may be significant negative effects on labour market outcomes for unskilled workers in the UK due to competition from unskilled migrants.

This situation is considered most likely if higher-skilled migrants are prepared to compete for lower-skilled jobs. Anderson *et al.* (2006) found that many East and Central European migrants were competing with indigenous workers at the lower end of the labour market and there was evidence of higher-skilled migrants in low paid jobs. For example, more than half of the migrants interviewed doing elementary jobs in hospitality had post-

secondary education. This means that there is an increasing level of pressure placed on entry points in the labour market as low-skilled workers compete with higher-qualified or higher-skilled workers for elementary positions.

Moreover, Anderson *et al.* compared the data taken from their respondents with official data which revealed that a significant number were earning lower wages than the national average for all employees within the relevant occupational category.

## 2.4.8 Low pay and low qualifications

**Table 2.14 Incidence of Low-Paid Employment in the UK Economy, 2005, by Highest Qualification Attained**

Highest qualification attained <sup>a</sup>	1995	2005	1995	2005
Bachelor degree or higher	4.1%	5.2%	5,278	12,032
Other NVQ4	8.2%	8.9%	3,893	6,012
NVQ3	18.0%	20.1%	8,531	13,249
NVQ2	27.5%	28.7%	8,093	13,128
NVQ1	34.1%	32.7%	2,812	2,659
Other qualifications	23.3%	28.2%	2,782	3,765
No qualifications	40.6%	41.5%	5,352	4,941

Source: Mason *et al.* (2008) Table 2.2. See Table 2.1 note.

Table 2.14 (above) shows the incidence of low paid employment in the UK in 2005 by highest qualification attained. As the table reveals, there was a greater incidence of low pay among workers with NVQ2 and NVQ1 qualifications. The highest incidence of low pay was among workers with no qualifications. The latest data (Table 2.15) supports these findings with more than half of those in low pay (paid under £7 an hour) without GCSEs above grade C or with no qualifications at all.

**Table 2.15 Incidence of Low-Paid Employment in the UK Economy, 2005, by Highest Qualification Attained**

Qualification level	Proportion of employed people aged 25 to 29 who earn less than £7 per hour gross
Higher education	12%
A level or equivalent	25%
GCSEs A*-C	37%
GCSEs below grade C or no qualifications	56%

Source: The Poverty Site; Labour Force Survey, ONS; the data is the average for 2008 to 2010; UK; updated Mar 2011. \*Paid less than £7 an hour. See note to Table 2.2.

The strategic importance of skills has been recognised both at national and European levels (cf. European Commission Resolution, 4.12.2007; UK Commission, 2010d) and across the EU low skills are identified as being related to low pay and also to some extent to precarious employment. The European Foundation for the Improvement of Living and Working Conditions draw a distinction between ‘low qualified workers’ (workers who have basic education levels) and ‘low skilled workers’ (workers in elementary occupations). Examining the sectors of work the low qualified workers are often employed in, Eurofound (2008) research discovered that low-qualified workers are most often found in the manufacturing sector, in wholesale and retail, in agriculture, and in construction. Generally, these sectors are labour-intensive, although many workers with higher education work within them. However, there are more people with basic education levels working in these sectors than workers with higher education levels, as well as in the hotel and restaurants sector.

#### **2.4.9 Low pay and self-employment**

Following the growth in rates of transition in and out of self-employment during the 1980s and 1990s, there have been further increases in self-employment in the UK since 2001. However, focusing on the impact of self-employment spells on income levels (Meager and Bates, 2002; Meager, 2007) shows that the case for self-employment as a ‘positive’ element in a transitional labour market is often not supported by evidence.

Research conducted in the 1990s revealed that while average self-employment incomes were similar to those of employees, self-employed earnings were much more polarised than the employee wage distribution. Moreover, when personal characteristics were controlled for, being self-employed significantly increased the likelihood of very low earnings (Meager, Court and Moralee, 1996). These findings were confirmed from modelling self-employment entries and exits in the UK using data from the British Household Panel survey, combined with retrospective work history data:

The UK evidence shows that the self-employed are highly polarised, with a more dispersed income distribution than employees. Once other factors are controlled for, the self-employed are over-represented in the lowest decile of the labour income distribution. Short-term scarring effects in income terms are limited, however, and on return to wage employment recent self-employment spells do not impair income chances ... There are, nevertheless, longer-term effects: having had self-employment spells during the working lifetime is a predictor of low incomes in later life (Meager, 2007, p.31).



The reason for self-employment being a predictor of low incomes may be related to becoming self-employed (e.g. in some cases redundancy or job loss leading to self-employment at lower incomes) or reasons for leaving self-employment (e.g. business failure) where the worker is unable to demonstrate the attributes (e.g. skills, work history) required for relatively higher paid jobs and has to move from self-employment to a relatively low paid job.

#### **2.4.10 Low pay and job quality**

Although there is apparent variation in the relative importance attached by individual workers to different job characteristics, comparative assessments of job quality across Europe reveal a notable convergence in terms of the aspects of work considered crucial for well-being (e.g. Gallie, 2007). Where workers are in jobs with lower skill levels, with less discretion over how they do the work, where there are fewer training opportunities, less security and greater difficulties in reconciling work and family life, they are also significantly less satisfied with their work. Green shows that when considered under an index of 'task discretion' (i.e. employee influence on what tasks are done, how they are done, on quality standards, and on the pace they are carried out), there has been a deterioration in job quality in the UK during the 1990s and 2000s.

The European Foundation for the Improvement of Living and Working Conditions' (Eurofound) has developed very detailed indicators to measure job quality in its European Working Conditions Survey (EWCS), which is conducted every five years. Tangian (2007) analysed the 2005 EWCS to produce a quality index for Europe. For the category 'Creativity' (i.e. non-repetitive tasks, ability to apply one's own ideas), the UK's 'score' was noticeably lower than Denmark, Germany, The Netherlands, France, Poland, Norway and Belgium. In their study of non-standard employment and job quality in Britain, McGovern *et al.*'s (2004) analysis of the nationally representative Working in Britain 2000 survey (conducted with the employed and self-employed), found that those jobs with low levels of autonomy were also somewhat more inclined to display other 'bad' characteristics (i.e. low pay, no access to an occupational pension, limited or no progression opportunities).

## **2.5 The impact of the NMW on low paid / low skilled work**

The Low Pay Commission reported that the NMW has had a different impact on earnings in each of the low-paying sectors. Cleaning and hospitality continue to have the highest proportions of jobs paid at the NMW, with hospitality and hairdressing having the highest proportions paid below the NMW.

Women, older workers and disabled people have seen less of a negative impact on their earnings and labour market prospects than the general working age population. Further, ethnic minorities and migrant workers have also been less affected by the recession but with varying impact within these groups. The largest adverse impact from the recession has been experienced by those without qualifications and by young people.

Median pay levels for young people have not increased at the same rate as for older workers, employment of young people has fallen significantly faster than for older workers, and evidence shows that employers are making increased use of the NMW youth rates for those under 21.

As the NMW has now been in place for nearly 12 years, recently published literature on the issue has tended to move away from estimating or commenting on short-run effects towards focusing on its more longer-term effects and consequences. Much of this literature is concerned with the impact of the NMW on employment and earnings inequality. Employment effects of the NMW have been investigated by, for example, examining aggregate employment and shares of employment by industry and age (Metcalf, 2007); examining individuals' employment experience (e.g. Stewart, 2004; Dickens and Draca, 2005); and mapping employment changes across both geographical areas and firms (e.g. Adam-Smith *et al.*, 2003; Robinson and Wadsworth, 2005; Blake *et al.*, 2006; Lam *et al.*, 2006). From this literature a consensus is apparent for the view that, overall, there is no significant impact of the NMW on employment. Indeed, the literature assumes that most employers want to comply with the NMW upratings and will so long as they consider the NMW level affordable (e.g. Dickens, 2007; Mackay, 2010; Dolton *et al.*, 2010). Other examples from the literature conclude that the NMW has raised the real and relative pay of low paid workers, has tempered wage inequality, and has contributed to the narrowing of the gender wage gap (albeit to a modest extent) (Dickens, *et al.*, 2010).

There is also some evidence of the impact of the NMW on skills. One study (Arulampalam *et al.*, 2004) revealed that the introduction of the NMW increased the probability of workers earning this hourly rate receiving training by between eight and eleven percentage points. These findings are consistent with an analysis of the 1998 Workplace Employment Relations Survey (WERS) (Almeida-Santos and Mumford, 2004)

and a study of the European Community Household Panel survey (Bassanini and Brunello, 2003), both of which concluded that training of low paid workers is positively correlated with higher levels of wage compression. However, a study sponsored by the UK Low Pay Commission (Dickerson, 2007) concluded that the introduction of the NMW and its subsequent upratings have had no statistically significant impact on the provision of employer-provided job-related education and training.

## 2.6 Low pay projections

In the third of their studies into the implications of technological change, changes in government policy and legislation, and changes in other economic and social drivers for the UK labour market, the UK Commission's *Working Futures 2007-2017* report (Wilson *et al.*, 2008) presents a detailed analysis by industry and geography of the changing demand for labour.

**Table 2.16 Projected Industrial Change in the Context of Low Pay, 2004-2020**

Industry	No. of jobs, 2004 ('000s)	Projected no. of jobs, 2020 ('000s)	Projected change in no. of jobs 2004-2020 (%)	Incidence of low pay, 2006 (%)
<b>Agriculture</b>	426	335	-21.4	42.0
<b>Primary production</b>	183	136	-25.7	-
<b>Manufacturing</b>	3,552	2,965	-16.5	14.6
<b>Construction</b>	2,090	1,934	-7.5	11.3
<b>Wholesale and retail</b>	5,055	5,637	+11.5	43.6
<b>Hotels and restaurants</b>	1,962	2,086	+6.3	69.2
<b>Transport and communications</b>	1,813	1,926	+6.2	10.8
<b>Business and professional services</b>	4,783	6,253	+30.7	20.6
<b>Financial intermediation</b>	1,162	1,136	-2.2	5.4
<b>Public administration and defence</b>	1,741	11,624	-6.7	5.8
<b>Education</b>	2,443	2,640	+8.1	17.4
<b>Health and social work</b>	3,224	3,695	+14.6	19.2
<b>Other services</b>	1,871	2,148	+14.8	31.1
<b>All employees</b>	30,305	32,515	+7.3	22.5

Source: Beavan *et al.* (2005) Cited in Lawton (2009). Calculations using Annual Survey of Hours and Earnings 2006.

Intended as a benchmark for debate and reflection, the report indicates a mixed future for low paid jobs. On the one hand, certain industries with traditionally high levels of low paid occupations are projected to experience significant job losses (e.g. agriculture, manufacturing, textiles and clothing); whereas other industries (e.g. distribution, hotels

and restaurants, and retail) are forecast to experience a rise in employment levels. Yet, the report stresses that the continued restructuring of the retail and distribution sectors appears to be leading to a much less optimistic picture for many lower level sales occupations.

Despite this:

Elementary occupations are now projected to see a much less rapid rate of job loss as the service sector in particular generates more such jobs. This polarization of demand for skills, with growth at both top and bottom ends of the skills spectrum, appears to be an increasingly common feature across developed economies (Wilson *et al*, p. xviii).

Lawton (2009) highlights the three trends that emerged from Beaven *et al*'s projections of industrial change drawn up to support the publication of the Leitch Review. As Table 2.16 shows, there will be a continued importance of manufacturing (representing 9.1 per cent of all employment by 2020 despite its continued slow decline), a growth of jobs in low-paying sectors, combined with an expansion in employment in sectors with lower incidences of low pay.

Lawton (2009) also draws upon Beaven *et al*'s (2005) study into alternative skills scenarios. Beaven *et al*'s projections focus upon both 'expansion demand' and 'replacement demand' (Table 2.17). The expansion demand—, the number of additional jobs created (or lost) in different industries and occupations —, is projected to be 2.2 million jobs overall to 2020. However, combining this projection with estimates of retirements, mortality and other exits from work, the replacement demand, suggests that there will be 17.8 million job openings overall between 2004 and 2020. The scale of replacement demand means that even those occupational groups set to witness negative expansion demand (e.g. elementary occupations) will see a positive net requirement for job openings. However, it is important to note that the continued relatively poor economic climate and the effects of the public sector 'cuts' are likely to have an impact on future employment patterns.

**Table 2.17 Projected Occupational Change in the Context of Low Pay, 2004-2020**

<b>Occupational group</b>	<b>No. of jobs, 2004 ('000s)</b>	<b>Projected no. of jobs, 2020 ('000s)</b>	<b>Projected change in no. of jobs 2004-20 ('000s) (expansion demand)</b>	<b>Net requirement, 2014-20 (expansion demand and replacement demand)</b>	<b>Incidence of low pay, 2006 (%)</b>	<b>No. of job openings 2004-20 which will be low paid ('000s)</b>
<b>Managers and senior officials</b>	4,609	5,499	+890	+3,325	4.0	133
<b>Professional</b>	3,539	4,518	+979	+2,861	1.6	46
<b>Associate professional and technical</b>	4,302	4,978	+676	+2,764	4.8	133
<b>Administrative and secretarial</b>	3,790	3,433	-357	+1,791	17.2	308
<b>Skilled trades</b>	3,433	3,256	-177	+1,476	17.2	254
<b>Personal service</b>	2,244	2,881	+637	+1,904	38.9	741
<b>Sales and customer service</b>	2,412	2,972	+560	+1,747	63.7	1,113
<b>Machine and transport operatives</b>	2,367	2,234	-133	+1,070	24.0	257
<b>Elementary</b>	3,403	2,559	-844	+887	60.7	538
<b>All employees</b>	30,099	32,330	+2,231	+17,825	22.5	3,522

*Source: Beavan et al. (2005) Cited in Lawton (2009). Calculations using Annual Survey of Hours and Earnings 2006.*

Lawton concludes:

By 2020, 3.5 million of the additional jobs created by a combination of expansion and replacement demand – 20 per cent of the total – will be low paid, assuming that low-pay rates in each occupational group remain broadly stable. Given that just over a fifth of jobs in the UK labour market are currently low paid, this would suggest that there will be very little change in the proportion of jobs that are low paid by 2020 (Lawton, 2009, p. 30).

## 2.7 Key findings

- Between the mid-1970s and mid-1990s there was a sustained increase in the incidence of low pay in the UK alongside a general increase in earnings inequality. Since then, the likelihood of being in low paid work has remained largely constant with just over one in five UK workers in low paid jobs in 2010.
- Low pay affects certain groups in society more than others. Socio economic groups at risk of low pay include: young workers (below 22 yrs); older workers (50 yrs +); some ethnic groups (Pakistani, Bangladeshi and Black African); and women in part-time work. Targeted policy intervention is necessary to ensure that these groups have fair access to training and employment opportunities if the potential of the labour market to promote social mobility and alleviate poverty is to be realised.
- Place is also significant with for example workers in the North East most likely and their counterparts in London least likely to be low paid (although there are considerable intra area variations). Low skilled workers tend to be concentrated in particular occupations which include craft and related trades, plant and machine operators, and in elementary occupations. The demand-side in the form of the quality and quantity of jobs available to low skilled workers is a key determinant of the opportunities for workers to enter low paid work although there is little evidence that intermediaries, workers or employers view these positions as stepping stones for progression.
- Nearly half of all low paid workers are clustered in three sectors: retail, health services, and hotels, a situation that presents opportunities and challenges for a range of stakeholders including employers in these sectors, Local Enterprise Partnerships, the Sector Skills Councils, unions and other sector bodies.
- Projections associated with the prevalence of low paid work differ somewhat but the anticipated demand for skills to 2020 suggest that low paid work will remain a characteristic of the economy. Certain industries with high levels of low paid occupations are projected to experience significant job losses (e.g. agriculture, manufacturing, textiles and clothing), whereas other industries (e.g. distribution, hotels and restaurants, and retail) are forecast to experience a rise in employment levels.

- The evidence suggests that the National Minimum Wage has helped to raise the real and relative pay of low paid workers and tempered wage inequality without having an adverse impact on the number of jobs in the economy. There is also some evidence of a positive impact on skills that suggests that the introduction of the NMW leads some employers to further invest in the skills of low paid workers in order to increase efficiency and achieve the productivity required to sustain the higher wage. In this way the NMW may in part, help to address the low skill equilibrium and improve some dimensions of job quality.
- The implications of our analysis is that processes of polarisation (for instance how it varies within fast growing and declining industries) in the UK labour market risk trapping lower skilled people in low paid jobs that are less likely to offer opportunities for progression. Some of the drivers of polarisation reflect major changes in the structure of the UK economy (for example, the rise in the *relative* importance of lower skilled service jobs) that are unlikely to be reversed in the short to medium term. However there is a need for further research to develop a greater understanding of this polarisation process (for instance how it varies within fast growing and declining industries).
- The challenge is to consider how best to promote training, development and progression opportunities for those who are in lower skilled, entry-level positions. The evidence of low pay in the economy reveals a need for a continuing policy emphasis on promoting opportunities for progression and training for those in lower skilled, entry-level positions. Those that enter and remain in jobs (or sectors) which offer few development opportunities are unlikely to realise their potential to progress in the labour market. This issue is of particular importance given that many people leaving benefits take their first step on the 'jobs ladder' by accepting lower skilled, entry level work; a route out of worklessness, poverty and ultimately social mobility that has been actively encouraged by current and previous governments.

## **3 Skills and the transition from benefits to work**

### **3.1 Introduction**

This section of the report draws on the evidence to investigate the role of skills and the transition from benefits to work. It reviews the factors which motivate individuals to develop skills and the propensity to undertake training before exploring the contribution that skills and training make to the transition from benefits to work. The role of basic and employability skills are explored and while there is little doubt that skills relevant to employers are an important factor in the successful transition from benefits to work it is recognised that skills are often part of a cocktail of factors which come together to influence successful transition. The importance of the demand-side is highlighted and the chapter concludes with a review of the role of employer recruitment practices in the transition from worklessness to employment.

### **3.2 Why people develop skills?**

In a review of the individual demand for skills for the UK Commission, Johnson *et al.* (2009) identify a range of motivating factors influencing individual participation in skills development. Generally there was a small variation apparent between those on benefits and those in employment with those on benefits slightly more likely to suggest that the reason for starting a course was to develop skills relevant to work, move on in education or apply for better paid jobs. When asked which motivation was most important there were clear differences between groups on benefits. For example, for those claiming Job Seekers Allowance the most important motivating factor was to help get a job (21 per cent) while for those on incapacity benefits learning a subject of interest was the key motivator (27 per cent).

Much of the primary psychological research on motivation to train and learn has focused on the experiences of higher skilled workers. A notable exception is the work of James (2007) who argues that self-efficacy plays an important role in explaining personal barriers and take up of skills development opportunities in relation to basic beliefs (for example 'I will never work'), job matching (the belief that 'I'll never find someone who will employ me') and presentation ('they'll look at me and say no').

Economic considerations play an important role in the decision to pursue learning. More than two in three people not in employment report that applying for a pay rise or a better paid job is a key reason for starting a course of study (Johnson *et al.* 2009). There is a considerable body of research associated with the returns to education in terms of qualifications and earnings. However there is substantially less evidence associated with the returns to training and skills (as opposed to education) more generally and more



specifically for those in low paid employment. It is a methodologically challenging area and a complex picture emerges. McIntosh and Garrett (2009) in a review of the Economic Value of Intermediate Vocational Education and Qualifications suggest that the value could differ according to whether the new qualification acquired is the individual's highest qualification, or whether the qualification is at the same or lower level than the highest level already attained. The key findings of the review include:

- NVQ2 as a new highest qualification suggest that they earn four per cent more than individuals with no qualifications with considerable variation apparent (e.g. seven per cent for city and guilds Craft Qualifications up to 20 per cent for RSA Level 2).
- All NVQ3s are associated with positive and statistically significant returns ranging from 11 per cent for NVQ3 up to 25 per cent for ONC/OND.
- An individual with an NVQ2 obtained through work earns around 10 per cent more than an individual with no or low level qualifications.
- For those obtaining an NVQ2 qualification post 16 wage changes of 22 per cent for younger people (aged between 26 and 34) but no change for those aged 33-44 years).
- Those who complete a level 3 apprenticeship earn a wage premium of 22 per cent for males and 14 per cent for females compared with those obtaining a level 2. Those completing a level 2 apprenticeship earn a wage premium of 20 per cent for males and four per cent (statistically insignificant) relative to a level 1 or level 2 qualification.

In the UK, academic qualifications offer even greater returns than those of vocational qualifications at the same level, although these may decrease if the time taken to obtain these qualifications is controlled for (Dearden *et al.*, 2000; Dearden *et al.*, 2002). Some have found that men and women experience similar returns: 26 per cent for a first degree, 16 per cent for two or more 'A' levels, and 28 per cent for five or more GCSEs grade C or above (McIntosh, 2002). Others have found that women tend to get a higher return from academic qualifications than men do, particularly from degrees (Dearden *et al.*, 2000).

Other research (Dickerson, 2005) however has found zero or even negative returns to low level vocational qualifications in some sectors of the economy. There are however considerable variations associated with the returns to qualifications. Dickerson and Vignoles (2006) identify the huge variations associated with different industrial sectors in the economy. They also suggest that returns are greater for academic rather than vocational qualifications.

Poor achievement at school often explains long periods of unemployment and/or inactivity. Quintini and Martin (2006) highlight that over 14 per cent of young people across the OECD leave school without an upper secondary qualification, often the minimum needed for entry into the labour market. Garrouste *et al.* (2010) use EU-SILC 2005 data of individuals aged 20-65 years to show that the higher the educational level an individual achieves, the less likely they will become long term unemployed. However, even those who obtain an upper secondary qualification may find that their transitions into the labour market are long and some young people may be in jobs that they are over-qualified for (Quintini and Martin, 2006). Quintini *et al.* (2007, p. 20) highlight that the youth labour market is often typified by “much turnover between the states of employment, unemployment and inactivity (which can include enrolment in education)”. The level of education attainment does not have a constant effect over the life course, with the returns to education declining after the age of 40 years (Garrouste *et al.*, 2010).

There are however opportunities to correct basic skills problems through adult education. While such interventions do not allow adult learners to re-gain lost years and potential progress in the labour market, they are associated with positive changes in socio-economic position. This is similar to the findings in Nunn *et al.* (2008a) who suggest that while experiences of FE and training in later life can have positive influences on transitions from inactivity, unemployment and insecure employment to more secure and sustained employment, they are unlikely to lead to class-mobility into higher socio-economic groups. Several other studies (reported in: Garrett, *et al.*, 2010, pp. 133-136) note that connection between basic skills improvements and enhanced likelihood of being in employment in the UK and Europe. Others also suggest that adult education to correct basic skills needs can have positive effects but caution that the impact of these may be small and their workplace impacts contained (Wolf *et al.*, 2009). Many of these studies suggest that the full benefits of increasing basic skills is in increasing the propensity for further learning, though they also stress that motivation is important as a determinant of success.

### **3.3 Participation in training**

There are a range of psychological, social, economic and cultural motivations to develop skills and the UK has a high level of participation in training and education for the working age population (18-64 years old) (23.9 per cent in 2009) compared to most EU countries (although well below the level of most Nordic EU countries) and well above the EU-27 average of 15 per cent (Table 3.1). In general the annual rates have remained comparable in the five years to 2009.

**Table 3.1 Participation of total population aged 18-64 years in education and training 2005-9**

	2009	2008	2007	2006	2005
<b>European Union (27 countries)</b>	15.0	15.0	15.1	15.4	15.8
<b>European Union (15 countries)</b>	16.0	15.9	16.0	16.5	16.8
<b>Denmark</b>	37.0	35.2	33.8	34.3	32.5
<b>Germany</b>	14.2	14.1	14.4	13.9	13.9
<b>United Kingdom</b>	<b>23.9</b>	<b>23.5</b>	<b>23.6</b>	<b>30.8 (u)</b>	<b>32.1 (u)</b>

Notes: u - unreliable or uncertain data

Source: Eurostat<sup>11</sup>

For unemployed people the rate of participation in training and education in the UK is again far ahead of the EU-27 average at 21 per cent, compared to 11.4 per cent, but again somewhat behind Denmark (Table 3.2). The EU-15 figures (i.e. excluding the more recent accession countries and therefore more similar to the UK on average) are around one percentage point above the EU-27 figures. Figures are provided for the full EU 27, the generally more economically developed EU 15 and the case study areas of Germany (a large internationally competitive economy) and Denmark (a small internationally competitive country and example of the higher training Nordic countries).

**Table 3.2 Participation of total unemployed population aged 18-64 years in education and training 2005-9**

	2009	2008	2007	2006	2005
<b>European Union (27 countries)</b>	11.4	11.5	11.3	11.0	10.7
<b>European Union (15 countries)</b>	12.6	12.5	12.5	12.5	12.0
<b>Denmark</b>	38.0	35.2	37.1	38.2	33.2
<b>Germany</b>	7.4	7.1	6.5	6.0	5.7
<b>United Kingdom</b>	<b>21.0</b>	<b>22.2</b>	<b>21.9</b>	<b>28.4 (u)</b>	<b>28.9 (u)</b>

Source: Eurostat

<sup>11</sup> All Eurostat tables include selected countries (UK and the two case study countries in Europe)

In terms of the inactive population (aged 18-64), the UK is around the EU-27 average at 23.4 per cent and 23.2 per cent respectively (Table 3.3).

**Table 3.3 Participation of total inactive population aged 18-64 years in education and training**

	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>European Union (27 countries)</b>	23.2	22.9	23.0	23.7	24.3
<b>European Union (15 countries)</b>	23.2	22.6	22.7	23.6	23.9
<b>Denmark</b>	37.8	35.1	34.7	37.1	36.0
<b>Germany</b>	24.0	22.9	24.0	23.3	22.2
<b>United Kingdom</b>	<b>23.4</b>	<b>22.0</b>	<b>20.9</b>	<b>30.9(u)</b>	<b>32.8 (u)</b>

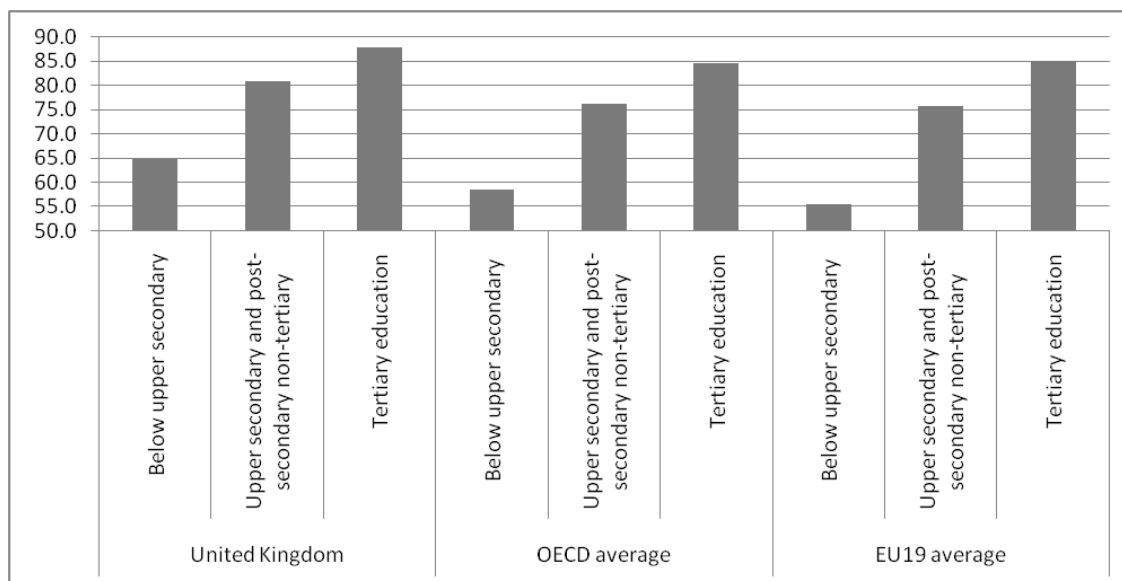
*Source: Eurostat*

The data would suggest that participation in training in the UK for different labour market groups is considerably higher than in other countries (with the exception of Denmark and other Nordic countries). Despite these relatively positive findings associated with participation in education and training in the UK there remain concerns associated with the skills of those seeking to move from benefits to sustainable employment.

### **3.4 Skills and labour market outcomes**

It is widely accepted that qualifications, acting as an imperfect proxy for skills, are a strong predictor of labour market success. Comparison of employment/unemployment by highest levels of qualification shows that in the UK, as elsewhere, the likelihood of being in employment falls dramatically for people with lower and no qualifications (Green, 2009a; Garrett, *et al.*, 2010). Figure 3.1 shows the employment rate by three bands of qualification rate for the UK and for the OECD and EU 19. This shows that in all cases the employment rate is substantially lower for those with lower than secondary school education and that the employment rate rises progressively with the level of qualification held.

**Figure 3.1 Employment rate by highest qualification in the UK, OECD and EU (2007)**



Source: OECD Education at a Glance 2009, Indicator A6

Berthoud (2003) calculates the probability of not being in employment in Britain according to the highest qualification held and concludes that there is four times as much chance of not being employed for those without any qualifications when compared with those with a degree level qualification. Indeed, he compares several measures of low skill, including but not only low and no qualifications, and suggests that this is one of the most significant predictors of not being in employment, being behind only family structure (mainly lone parent status) as a contributory factor explaining unemployment/inactivity. He shows that people with low qualifications and skills have a 13 per cent additional risk of being unemployed. He also shows however, that qualifications are only an imperfect proxy for skill and that where measures of occupational position are available (determined partly by skill level, though more by an analysis of control and Occupational Classification<sup>12</sup>, see Rose and O'Reilly, 1998) they offer an even stronger causal explanation for unemployment.

While the imperfect nature of qualifications as a proxy for skills is noted, it may also be the case that the signalling effect of qualifications (see below) does have some benefit in terms of employment prospects and earnings potential. For example, Dorsett *et al.* (2010) undertake an innovative extended regression analysis using the British Household Panel Survey to show that experiences of lifelong learning have a greater impact on both employment and wages where they result in qualifications upgrading. Indeed, without this they note that the employment effect is virtually zero.

<sup>12</sup> Occupational Classifications are used to categorise occupations according to their similarity with one another and the level of skill required. Occupational Classifications are also used to generate Socio-Economic Classifications which aim to map Occupations to an understanding of social 'class'.

While it is generally accepted that both qualifications and skills have an effect on labour market (employment and earnings) outcomes and that both qualifications and skills are mediated by education and training, a variety of studies question the mechanism by which this occurs (Psacharopoulos, 1979; Heckman, *et al.*, 2006). There are three basic arguments in this literature; that education and training can act as or be perceived to:

- directly enhance productivity-related skills and therefore act as a signal of the possession of these skills;
- signal of the ability to acquire and use productivity enhancing skills;
- signal of broader and less tangible non-cognitive skills or personality traits such as the ability to work hard, self-management, team work and communication.

This debate is connected to the employers' recruitment practices and whether they operate a strong or weak screening process (Bosworth, *et al.*, 1996). That is, whether they see qualifications as directly or indirectly signalling the productivity of the potential worker (see Section 3.9).

These individual effects are also apparent at the aggregate level. For example, the OECD shows that the aggregate qualifications levels correlate with overall levels of employment. Those countries with the highest levels of qualifications among the population also have the highest levels of employment (OECD, 2004). That said, it is difficult to isolate causality; i.e. it is not clear whether countries with high skills contribute to economic growth or whether rich countries, benefiting from high levels of growth, are better able to invest in high quality education systems.

When thinking about the link between the level of workforce skills, employment levels and economic growth it is also important to understand the degree of labour market polarisation in terms of skill, earnings, employment and job security. For example, Gallie suggests that job insecurity has increased at the lower end of the labour market (Gallie, 1998). With Paugam he also shows some of the more detailed mechanisms by which this operates. For example, in an analysis of detailed cross-country data for the European Commission, he shows that poor quality jobs with routinised tasks, little worker autonomy and few opportunities to learn are damaging for the worker's ability to update their skills and maintain their employability. They also show that the quality of work for the low skilled had declined over recent decades and that the low skilled are those least likely to benefit from training while in employment (Gallie and Paugam, 2002), a finding supported by more recent research (Hogarth *et al.*, 2009b). Taken together this suggests that there is some polarisation in the workforce which constrains the job security and employability of the lower skilled, creating a lock-in effect.

The adoption of the concept of flexicurity<sup>13</sup> has focussed attention on the difference between job and employment security, but in this instance, low skills are associated with both poor employment and job security.

In addition to low skills, there is evidence that poorly matched skills have a negative impact on employment propensity: the skills mismatch thesis. There is some considerable evidence that the UK economy has suffered from such skills mismatches over recent years (Dickerson, 2002; Beatty and Fothergill, 2003; Hogarth and Wilson, 2003)<sup>14</sup> with basic skills and employability skills featuring strongly in the discourse.

### **3.5 Basic skills**

Parsons and Bynner (2007) use the British Cohort Study (BCS) to cast particular light on the contribution of basic skills gaps as a causal factor in unemployment. Though their study does not generate statistical analyses of causality, it does identify adults at age 34 in the BCS with basic skills in numeracy and literacy below Level 1 (GCSE grades D-G) using a specially designed test. They then use the BCS to track their current and life-time experiences. What this shows is that evidence of the emergence of basic skills needs was available at an early age and that frequently little was done to correct this within the education system. The cohort with basic skills lower than Level 1 often left the education system early, had greater prevalence of unemployment (particularly for those with low basic literacy skills) and tended to work in lower occupational groups that on average attract lower wages. Indeed while in the overall BCS 1970 cohort sample only one per cent had never worked, this rose to more than 11 per cent for those with literacy skills below Entry Level 2.

In addition, those identified with lower basic skills at age 34 tended also to be less likely to be engaged in work practices (such as using a computer) which might act as a proxy indicator for the potential for sustainability of their employment and they were more likely to be in unregulated 'other' occupations. Interestingly, people with low basic skills at age 34 were also more likely to have spent a greater proportion of their working lives as sick and women spent more time at home caring for children than did others in the sample with basic skills above Level 1. Taken in the whole, while this research does not consider basic skills as a causal factor of unemployment, it does demonstrate the connections between low basic skills, socio-economic disadvantage (including, but not specifically, barriers to employment) and wider inequalities in life chances and experiences.

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<sup>13</sup> Flexicurity is a policy concept that aims to combine the most desirable aspects of labour market flexibility with employment security and generous welfare provision. First used in relation to the Netherlands, it is mainly associated with the Danish labour market policy model (Wilthagen, 1998 and 2007). The European Commission now use it as a guiding principle for the European Employment Strategy (European Commission, 2007a and 2007b).

<sup>14</sup> Skills mismatch can also be present within the labour market and include 'over-qualification', see Felstead *et al.* (2007).

### 3.6 Employability skills

Over recent years there has been an ongoing debate and a great deal of research into the issue of employability (Bhaerman and Spill, 1988, p.198, Yorke, 2006; Greatbatch and Lewis, 2007; Yorke and Knight, 2007; Nunn *et al.*, 2008a; UK Commission, 2009c and 2009d). Employers continually and consistently report that in addition to technical skills, and sometimes even without technical skills, they require a set of 'soft' skills which are often missing in both recruits and applicants at all levels from graduates to relatively low skilled work (Chartered Institute for Personnel Development, 2008; CBI, 2008; UK Commission, 2009, 2009a, 2009c and 2009d; CBI, 2010). There is, however, some dispute as to exactly what constitute 'employability skills' (UK Commission, 2009c and 2009d). The CBI, for example, emphasise seven sets of attributes, namely: self-management; team working; business and customer awareness; problem-solving; communication and literacy; application of numeracy skills; and the application of ICT skills (CBI, 2008 and 2010). Alternative models include the SEED (social intelligence, emotional resilience, enterprise behaviour, discipline) approach; and that adopted for the new diploma qualifications which prioritise Personal Learning and Thinking Skills (PLTS).

Generic skills are similar to, and in some definitions overlap with, employability skills. For example, Felstead *et al.* (2007) define generic skills to include communication and teamwork which tend to be seen as a component of employability skills, but also other more applied computer skills, influencing skills and management and leadership skills. They suggest that it is these latter more applied or 'harder' skills that attract a particular pay premium. However, they, and others (Green *et al.*, 2007), suggest that these pay premia are highly stratified and while pay returns to basic computer skills are reasonably constant over time, they have grown for higher-level computer skills.

What is apparent is that definitions may vary according to the different needs of employers in different sectors and different occupational roles, but employers are consistent in reporting dissatisfaction in the 'employability skills' of the workers they do recruit, let alone those that they do not. In addition, increases in the demand for labour can lead to improved opportunities for those previously considered to be 'unemployable' (Brown *et al.*, 2002) and in conditions of declining employment employers may become more selective (Nunn *et al.*, 2010a).



There is a great deal of research evidence that suggests that many groups of unemployed and inactive people face chronic problems related to their employability skills such as low confidence, a lack of self management (reliability, punctuality etc) and low motivation. For example, O'Connor *et al.* (2001) show that entrants to the New Deal for Young People frequently exhibited these kinds of skills deficits. Other research has suggested that some Young People face these problems even when they have qualifications, and in some cases work experience also (Bryson *et al.*, 2000).

The notion of employability, and particularly that there is an 'employability gap' cited by employers as a recruitment problem, has been a powerful defining feature of employment policy in the UK over recent years (and has also been a central theme in the various iterations of the European Employment Strategy). Since the 1990s, the concentrations of unemployment within particular social, demographic and geographical groups facing labour market disadvantage has commonly been thought to be as a result of deficiencies in relation to motivation, confidence, aspiration, the ability to communicate effectively and self-management. Here, self management is typically understood as time management or ability to 'fit in' (e.g. by following expectations regarding dress and behaviour).

Successive redefinitions of the Welfare to Work policy framework have therefore placed a great deal of emphasis on developing interventions to 'help' specific social groups identified as suffering from an employability 'gap' to overcome their 'barriers' to work (Department for Work and Pensions, 2007, 2008a, 2008b, 2008c, 2009 and 2010). This is also an explicit focus of the 'Leitch agenda' which sees increasing employment on the one hand (transitions into the labour market) and increased productivity in the labour market (transitions within the labour market) as key to enhanced overall economic competitiveness and therefore a mechanism to provide for greater aggregate welfare (Leitch, 2006).

There is some empirical evidence to support the contention that a deficit of employability skills is not just a problem for employers but also determines individual life chances. For example, there is increasing evidence that non-cognitive skills have a bearing on both employment and earnings potential in the US (Heckman, *et al.*, 2006; Osbourne-Groves, 2006) and the UK (Blanden *et al.*, 2007; Felstead *et al.*, 2007; Green *et al.*, 2007; Green, 2009b). The evidence suggests that this is the result of both direct effects in relation to employer selection and indirect effects mediated through the education system. While much of this data relates to earnings as opposed to employment propensity it is reasonable to assume that the effects of non-cognitive skills will be very similar and (the surprisingly few) attempts to replicate the analysis for employment seem to confirm this for Germany (Carneiro *et al.*, 2007; Uysal and Pohlmeier, 2009; Heineck, 2010).

The seemingly important impact of non-cognitive skills on determining labour market outcomes raises several important potential implications for this study.

- It raises questions about the role of the education system in relation to labour market success and whether it serves to directly enhance skills or merely as a signal of the ability to develop cognitive/non-cognitive skills (see Psacharopoulos, 1979; Heckman *et al.*, 2006).
- It opens the debate about whether later labour market performance is the product of genetic/innate (Saunders, 1995; Gottfredson, 2003; Nyborg, 2003) factors or socialisation and social selection (Breen, 1997; Savage and Egerton, 1997) through mediating institutions such as the family, education system and employer recruitment practices.
- The evidence suggests that patterns in the development of non-cognitive skills are developed in early childhood, and to the extent that it is possible to influence their development, the most effective interventions are pre-school (Esping-Andersen, 2005; 2007; Heckman, 2006; Cunha *et al.*, 2010).
- The importance of non-cognitive skills in determining labour market outcomes draws attention to the role of unemployment in damaging these skills and therefore having a long-term 'scarring' effect on labour market outcomes (Blanchard and Diamond, 1994; Kahn, 2010)
- The issue of non-cognitive/employability skills raises further issues because a range of authors (e.g. McQuaid and Lindsay, 2005; Cremin, 2010) are critical about the way in which employability has been interpreted in the development of labour market policy over recent years, especially in the UK. They argue that policy interventions have focussed too tightly on these skills/personality traits as being an individualised deficit rather than the result of interaction with a range of demand-side problems such as the level or geography of demand for employment, employer practices (e.g. discriminatory recruitment strategies or just out-dated work organisation) (McQuaid and Lindsay, 2005) or the alienating nature of capitalism *per se* (Cremin, 2010).

Meager (2007) suggests that a wider focus on supply-side constraints (such as child care or the benefit trap) may be more appropriate for some groups (e.g. lone parents) than others (e.g. disabled people) where it may be that more demand-side factors have a bigger part to play in explaining lower employment rates as suggested by Berthoud's (2011) finding that regional or local labour market conditions are strongly related to the employment rate for disabled people.

From this perspective, it is arguable that the recognition of the role of institutional structures in shaping behaviour is overly limited to the impact of welfare policies and benefit regimes on the motivations and decision-making of those on benefits and therefore ignoring a range of wider social influences. Such critics suggest that where broader conceptions of employability have influenced more genuinely holistic services to the unemployed, they have been relatively marginal and not been mainstreamed (Lindsay, *et al.*, 2007). These findings suggest that the movement in recent years, rhetorically at least, toward more individualised programmes of support to assist individuals to tackle all their barriers to work are appropriate among those that subsequently moved into employment.

### **3.7 Skills are not a magic bullet**

There is little doubt that skills can help people make the transition from benefits to work and provide a sound foundation for sustained progression. However skills are part of a complex cocktail of factors which influence successful transition. There are a wide range of barriers that individuals face (Houston 2005, Sanderson 2007). This evidence suggests that individuals themselves have a range of characteristics that either enhance or constrain their ability to access the labour market including their age, gender, ethnicity, health and personal social networks. Those more at risk of unemployment include some ethnic minority groups, single people (especially carers), younger people and the low skilled. Other research (Ritchie *et al.*, 2005) suggests that households headed by these people along with ex-offenders have a higher than average chance of being workless. Many studies, notably those of Berthoud (2003, 2009) also suggest that these personal characteristics are cumulative and additive and combine with other non-personal characteristics (health and geography) to create multiple disadvantage.

For example Bambra and colleagues (2008, 2009 and 2010) show that ill-health and especially disability and long-term unemployment are strongly linked to one another. In a range of studies they show the links between the welfare regime and the health implications of unemployment, suggesting that the regimes with low replacement benefits and high levels of means testing appear to generate significant negative health penalties when compared to more generous welfare regimes. Discrimination in the labour market or just the rational calculations of employers on the costs and benefits of employing some disabled people mean that disabled people or people with health problems are unable to access jobs that they are able to undertake (Hasluck, 2008). Recent research (Berthoud 2011) looking at longitudinal survey data focussing on disabled people suggests that disabled people face a substantial employment penalty which increased between the 1980s and 1990 but has remained fairly constant since. It also shows that people with low qualifications are more likely to be disabled and where this is the case they fare

disproportionately worse in relation to unemployment – suggesting the multiple nature of disadvantage. Berthoud's analysis suggests that disability of itself imposes an employment penalty, but that this has a much bigger impact on the low skilled than it does on people with higher levels of qualification. He also finds that employment of disabled people is very sensitive to long-term local/regional labour market trends (e.g. long-term depressed demand etc) than it is short-term business cycle variations.

Geography also has an important role to play in the transition from benefits into employment, particularly for low skilled workers who are often reluctant to travel or relocate (Houston, 2005). The replacement job growth that has accompanied industrial restructuring has resulted in a skills mismatch where the skills required in the new sector (often in the service sector) are different from those required in the old sector (manufacturing or primary services). The sorting effects of the housing market also come into play which leads to concentrations of those at risk of disadvantage in the labour market in particular areas or neighbourhoods. These neighbourhoods can accentuate disadvantage due to a range of factors such as the limited scope of social networks and limited connections with the world of work which can be reinforced by employer recruitment and selection practices (e.g. advertising of vacancies, postcode selection).

There is a great deal of research that suggests that one of the problems in making the transition from unemployment to work is related to incentive effects and specifically whether taking a low paid 'entry-level' job is beneficial given the loss of benefits that this entails (Williams, 1986; Romero-Ávila and Usabiaga, 2009). This is related to the wider literature on incentives and their effects on behaviour in the labour market, which generally follows economic orthodoxy in suggesting that preference seeking individuals will be motivated to look for work if financial rewards make this attractive but will not do so if labour market institutions (benefit entitlements; employment protection laws which make hiring risky and firing difficult) mitigate against this. Certainly the issue of the complexity of the benefit system and the potential that this has to offset incentives designed into the system has been an ongoing theme in the welfare reform debate (Department for Work and Pensions, 2008a, 2008b, 2009 and 2010).

### **3.8 The demand-side**

The demand-side of the labour market has often been marginalised in discourse surrounding the transition from inactivity and unemployment to employment. However employers provide the jobs and their labour force requirements and the drivers and process of recruitment to low paid employment is a critical consideration.

Despite the regular calls for employer involvement and engagement in the design and delivery of skills-related programmes, the evidence on effectiveness is mixed. Part of the evaluation of the Ambition Programme (GHK Consulting, 2005) included identification of best practice in employer engagement. The evaluation concluded that implementation of a demand-led approach to training and skills-related interventions is complex, resulting in variation in both local delivery models and their outcomes.

Nevertheless, the close involvement of employers in skills development is key if they are to contribute to the design and development of services and realise the benefits of investments in upskilling. In their report on sustainable employment, the National Audit Office (2007) stated: to effectively help people gain sustainable work and advance requires local employment and skills services to work closely with local employers to meet labour market needs. The formation of the Local Employment Partnerships (LEPs) in the UK is intended to establish a means of engaging with employers to meet recruitment and skills challenges. An investigation into their effectiveness is due to be published in 2012 (IES, forthcoming). A notable finding from a recent review of vocational education and training in England and Wales by the OECD (Hoeckel, 2009) was that few countries have achieved strong employer engagement without an equally strong apprenticeship system.

### **3.9 Evidence on employer skills needs**

Employers' need for skills is shaped by general economic activity levels, the changing demand for goods and services, and by the various business strategies employers adopt to meet that demand. The UK Commission's National Strategic Skills Audit for England 2010 (UK Commission, 2010c) examines the aspects that interplay in shaping the skills structure of the workforce in England. Technological change, globalisation, and specialisation drive strategies for new goods and services produced in the country and influence the England's industrial structure. This in turn determines the nature and quality of jobs on offer in terms of occupations, the type of job (e.g. full-time, part-time) and skills requirements.

Employer demand for skills is also dependent upon their organisational strategies and their perceptions of returns to skills. The UK Commission acknowledges that skills are a derived demand and considers that a major challenge facing the future whole UK economy is to raise the demand for skills by moving up the value chain and by encouraging more businesses to adopt high-value, skill intensive patterns of behaviour (UK Commission, 2009a).

Empirical analysis on skill change has actually been quite rare and prominent studies in the US (Autor *et al.*, 2006), Britain (Green, 2006; Goos and Manning, 2007; Green and Zhu, 2008) and some European countries (Goos *et al.*, 2009) suggest that relative demand for skills are better explained with reference to the polarisation thesis rather than be considered as evidence of a general upskilling of the workforce as part of the move towards a knowledge economy. Micheals *et al.* (2010) examined industry level data on the US, Japan and nine European countries between 1980 and 2004 and found that industries that experienced the fastest growth in ICT also experienced the fastest growth in the demand for the most skilled workers and the fastest falls in demand for workers with intermediate levels of skills.

In the US, as in many advanced industrialised countries including the UK, labour markets have been affected by a range of developments over the past 20 or so years. Employer demand for workers at various skill levels has changed, due to large-scale technological change, workforce reorganisations, and expanding trade. Some firms report continued difficulty recruiting and retaining higher-skilled workers. At the same time, some lower-skilled workers are finding it more difficult to maintain regular, stable employment.

However, it is not only the question of changes in the level of skills that is important but also changes in different types of skills and skill outcomes. For example, Green (2009b) argued that in professional jobs a great deal more than technical expertise is required in order to be a competent worker. What is required is an array of communication and interactive skills, physical skills in some cases, the ability to work autonomously, as well as traditional cognitive skills. Green's study of the evidence leads him to conclude that certain generic skills (i.e. both cognitive and interactive skills) are being increasingly used in the British economy. He considers that the growth of ICT has been one major driving force behind the changing use of skills but that this has been supplemented by the spread of high-involvement management practices – such as worker surveys, team-working, consultative meetings, quality improvement circles – in both the private and public sectors. Green concludes that securing a job in one of these 'High Performance Workplaces' which provide opportunities for personal development is a key factor in making the transition to work with opportunities for progression.

### **3.10 The role of employer recruitment practices in transitions**

Public policy towards employer recruitment and selection, both in terms of incentives and legislation, stresses two potentially contradictory themes related to competitiveness and fairness. First, there has been a strong emphasis on promoting firm-level competitiveness with labour market flexibility the lodestone for this. Second, there is a focus upon promoting fairness and equality. Much of the literature on recruitment

practices since 2005 has focused upon one or other of these themes. Efforts to reconcile these, often characterised as sitting in tension to one another, are perhaps best exemplified in the EU's emphasis upon 'flexicurity' and the attempts to generate appropriate policy frameworks (Anderson *et al.*, 2009).

In general, the literature reveals that employers' recruitment processes can be formal and informal (and sometimes a mixture of both) and are often separated into several stages: from advertising a vacancy, to screening, short-listing, interview, and selection. Furthermore, employers tend to use different recruitment methods depending upon the level of the vacant post, the perceived degree of risk associated with this and the costs involved in the recruitment (Nunn *et al.*, 2010b). Indeed, in terms of recruitment, employers display a considerable degree of heterogeneity and their patterns of recruitment and selection and the preferences they make through these are very varied and therefore difficult to predict or aggregate (Keep and James, 2010).

For example, the Confederation of British Industry (CBI) has suggested that many British employers operate a 80/20 rule, whereby 20 per cent of the weighting is concerned with 'hard' skills (i.e. those amenable to certification) and 80 per cent to non-certified generic and soft skills (CBI, 2007). Many studies conducted in the period since 2005 reveal continuity of findings with previous research that revealed a quite limited role for qualifications in the recruitment and selection process, and that many jobs appear to carry no specific qualification requirements at the point of recruitment (e.g. Roe *et al.*, 2006; LSC, 2008; Shury *et al.*, 2008). However, these findings exist alongside much economic analysis that concludes individuals holding qualifications are more likely to be employed than those without (e.g. Dickerson and Vignoles, 2007; Jenkins *et al.*, 2007) and that entry to some intermediate and higher level occupations is dependent upon the attainment of qualifications providing a licence to practice. The evidence would appear to suggest that the relationship between qualifications and employment outcomes (particularly those associated with low paid jobs) is neither fixed nor certain.

Nunn *et al.* (2010b) found that, for higher-level positions, employers may be more willing to invest in a longer and more staged recruitment process in order to collect more robust information to judge candidates' likely productivity and performance. By contrast, for lower-level posts, cost considerations are often more important and employers are willing to recruit with less information (Devins and Hogarth, 2006). Certainly, the tendency to use informal methods appears to occur more extensively in low- and semi-skilled occupations and this has been considered to be problematic for the more prescriptive, formalised models of Human Resource Management (HRM) that feature in much HRM literature where 'informal' practices that do not conform to 'ideal types' are assumed to be deficient (see Kersley *et al.*, 2006).

In their study of seven low-paid jobs (call centre agents, hotel room attendant, food processing operative, sales assistant, hospital cleaner, and healthcare assistant) in large organisations operating in five industries (call centres, hotels, food processing, retailing and hospitals), Lloyd and Mayhew (2010) asked managers what qualifications and attributes they sought in the recruitment process and whether they experienced any difficulties in finding the competences that were required.

Only those organisations recruiting call centre agents and healthcare assistants made any direct reference to qualifications/skills. In the call centres the most cited preference was for GCSE grade C in Maths and English, whilst for healthcare assistants a GCSE at any level was preferred. However, even in these jobs, lack of qualifications was not a barrier to recruitment for those candidates who showed the requisite personality traits or previous experience. In the tightly-controlled, highly routine and repetitive work involved in call centres, a high degree of turnover was evident. As a result, recruitment managers were increasingly defining the preferred characteristics of candidates in terms of their 'staying power' rather than their qualifications, experience or personality.

In the retail organisations, managers sought sales assistants who had basic numeracy and literacy but no reference was made to any formal qualification requirements. Here, as with the call centres studied, 'attitude' and communication skills were given high priority. Yet, in the recruitment of room attendants and food processing operatives, many organisations did not seek even basic numeracy and literacy skills. In the case of one food processing company, the basic skills test for job candidates had been removed when recruitment had been outsourced to a temporary work agency.

The role of employment agencies is an increasingly important characteristic of the labour market. Hoque *et al.* (2008) indicate that the number of agency workers<sup>15</sup> in Britain grew by 350 per cent in the period 1984 to 2005, and the Chartered Institute for Personnel and Development (2007) estimates that 81 per cent of employers use agencies for temporary or permanent recruitment. The Work Foundation (Clayton and Brinkley, 2011) estimates that approaching 850,000 workers are employed through temporary agencies (or other intermediary organisations). In some sectors and industries (e.g. cleaning, food manufacture, hospitality, and call centres) temporary work agencies now act as an important means of entry. Furthermore, there is evidence that employers use agency employment as a form of extended interview or screening process and in some instances agency work offers the only point of entry for lower-level jobs (e.g. James and Lloyd, 2008).

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<sup>15</sup> An agency worker has a contract for service or a contract of employment with the agency who finds / places them in work. This work is often called 'temporary work', 'temping' or 'agency work'. The firm who hires the worker pays a fee to the agency, and the agency pays the wages to the worker.



The role of informal recruitment methods has also been considered in relation to how such practices may, directly or indirectly, disadvantage certain social groups. Informal recruitment channels, particularly those used for low-skilled, low-paid positions and used especially by small employers (Dewson *et al.*, 2005) can replicate past patterns of recruitment and exclude disadvantaged groups, many of whom may well have been out of the labour market for long periods<sup>16</sup>.

In their review of the evidence relating to the economic and social costs and benefits to employers of retaining, recruiting and employing disabled people and/or people with health conditions or an injury, Needels and Schmitz (2006) found that informal recruitment methods tend not to favour disadvantaged groups generally (e.g. ethnic minorities, women, individuals from socially excluded communities). Such groups are often not privy to the informal networks underlying the recruitment. Indeed, they found that while disabled people are more likely than average to be economically inactive, and thereby separated from networks based on labour market connections, this is a disadvantage they share with other economically inactive people, and is not specific to being disabled.

### **3.11 Key findings**

- The evidence suggests that participation in training in the UK for different labour market groups is considerably higher than most other countries. However despite these relatively positive findings there remain concerns voiced by a range of supply and demand side stakeholders associated with the skills of those seeking to move from benefits into employment.
- For many of those on benefits developing skills which are relevant to work or to move on in education (or other intrinsic benefits) are clearly important. The evidence suggests that a range of motivating factors influence participation in skills development. From a psychological perspective, self efficacy (in this case self-belief in the ability to undertake learning or get a job) has a key role to play. Economic considerations such as developing skills to apply for a better paid job are also important. However there are clear differences between groups on benefits with those on JSA more likely to identify getting a job while those on incapacity benefit (now Employment and Support Allowance) more likely to identify learning a subject of interest as a key motivating factor which need to be factored into the design of interventions.

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<sup>16</sup> For a general examination of employers' attitudes towards, recruitment of, and rejection of, unemployed jobseekers, see Atkinson *et al.* (1996).

- Generally skills of all types have positive relationships with employment and earnings. However, the evidence suggests that the most effective and efficient investments in skills (basic and employability) occur early in an individual's life cycle and certainly before leaving compulsory education. This does not mean however that later interventions in adult and lifelong learning cannot have positive effects and should not be attempted. It does however highlight the importance of the skills gained in the compulsory education system as a foundation for success in the labour market.
- Skills of a variety of different types clearly constitute a barrier to employment, and this combined with unemployment and inactivity or poor quality jobs with few opportunities to learn, damage workers ability to update their skills and maintain their employability. Skills needs include:
  - Basic numeracy and literacy skills which are commonly demanded by employers and which also offer long-term benefits to individuals through increasing their disposition to further learning and personal development.
  - Employability skills (often referred to as 'generic' or 'soft' skills) that include sets of personal attributes and behaviours which are sought by many employers recruiting to low paid positions. There is evidence to suggest that a deficit of employability skills can determine individual life chances as well as be a barrier to employment.
  - Technical skills and/or qualifications which have a positive effect on labour market outcomes (employment and earnings). Apprenticeships (and higher level skills) are identified as particularly effective qualifications in terms of positive labour market outcomes.
- Interventions to support individuals in the transition to work will need to consider different skills needs (e.g. basic, employability, technical) in the round and ensure that skills deficits are filled in the right sequence to meet the specific needs of individuals and employers. However skills interventions for the most disadvantaged will often need to be accompanied by other services (e.g. childcare, health, employer engagement) in order to overcome the multiple barriers to employment that some face and intermediaries will need to work in partnership to deliver services effectively.
- The limited scope of social networks and the limited connections with work experienced by disadvantaged groups in the labour market adversely impact on the opportunities to make the transition from worklessness to employment. These can be reinforced by employer recruitment and selection practices (e.g. advertising of vacancies, postcode selection) which marginalise the most disadvantaged. Employers and intermediaries need to be aware of this and develop an environment which encourages the development of the social networks necessary to support retention and progression at work.

- These findings overall suggest that there are some important conclusions to be borne in mind when thinking about the role of skills interventions to support the transition from benefits into work with sustainable progression. There has been a strong emphasis in recent decades on factors on the supply side of the labour market as barriers to employment however it needs to be recognised that in trying to understand the transition from worklessness to employment, factors on the demand side are also important. These include the quality and quantity of jobs available in the local labour market and employer recruitment practices.

## **4 Success factors; policies and practice to support transition**

### **4.1 Introduction**

This section of the report draws on the evidence to identify the success factors associated with the role of skills in the transition from benefits to work. It highlights the multiple challenges that impact on the transition from worklessness to employment and draws on the evidence to explore the role of training interventions in active labour market policies. It identifies some key success factors associated with developing employability skills, information advice and guidance and the alignment of the employment and skills systems. The section concludes with a review of the evidence associated with 'what works' in relation to Welfare to Work policy and for selected groups at risk of disadvantage. Much of this evidence concludes that skills are one part of a complex mix of factors which impact on successful transition. The consensus appears to be that there is a need to move away from set programmes with rigid designs to more flexible and personal approaches where skills and career planning are an integral element of a holistic solution to supporting and making successful transitions.

### **4.2 Overcome multiple challenges**

Many individual, institutional and structural factors impact on the transition from inactivity to employment and actually act in combination. For example, there is a growing literature on the way in which individual and personal disadvantages combine and are additive (Berthoud, 2003). The Department for Communities and Local Government have identified a persuasive account of the mutually reinforcing linkages between individual disadvantage and spatial factors (DCLG, 2006). The availability of jobs are crucial in a tight labour market where factors such as discrimination, spatial barriers and institutional barriers are likely to be more visible and where employers can afford to be more selective and workless people find more competition for jobs (Nunn, *et al.*, 2010a).

This complex environment provides the context for the role of skills in the transition from benefits into work. Two key guiding principles emerge from the literature; (i) skills interventions will often need to be multiple in order to assist in transitions to employment (e.g. correct basic skills needs as well as aid in matching workless job seekers to specific functional skills demands on the part of employers) and (ii) skills interventions cannot be developed independently and will instead often need to be part of a package of active measures designed to help people overcome their own and external (institutional) barriers to employment.

There is some unanimity in the evidence that there is no ‘magic bullet’ (Hasluck and Green 2007, Ritchie *et al.*, 2009) however research evidence does provide an indication of what might work in terms of welfare to work interventions, employability skills and information and guidance.

### 4.3 The role of training in Active Labour Market Policies

Meager’s (2008) review of the role of training and skills provision in Active Labour Market Policies (ALMP) shows that the UK is a relatively low spender on labour market policy generally and on active measures. Here Labour Market Policy includes ‘passive’ measures such as transfer payments and active measures refer to training programmes and other interventions designed to support the transition to work.

**Table 4.1 Spending on LMPs as a percentage of GDP**

<b>Programmes</b>	<b>Australia</b>	<b>Denmark</b>	<b>Germany</b>	<b>United Kingdom</b>	<b>United States</b>	<b>OECD</b>
<b>Total LMP Spending</b>	0.74	2.56	1.91	0.52	0.98	1.37
<b>Spending on Active measures</b>	0.29	1.35	0.81	0.32	0.17	0.57
<b>Spending on Passive measures</b>	0.45	1.22	1.1	0.2	0.81	0.78

*Source: OECD Labour Market Statistics.*

Comparatively speaking while the UK spends relatively little on Labour Market Policy in general the proportion of that spending that is focussed on active measures is high. The way that active measures are structured in the UK is very different from the archetypal model where training is a much bigger part of the ALMP programme. This reflects the low levels of passive spending (i.e. welfare benefits) in the UK. However, whilst the UK dedicates a very high share of its labour market spending on active measures, training measures for the unemployed and inactive have nevertheless formed a relatively minor element of ALMP generally. Meager also shows that the extent of public spending diverted to training measures has fallen between 2000 and 2005 in the UK, as in many European countries.

Meager reviews a wide range of evaluation studies that consider the relationship between training interventions and unemployment, against the concern that training interventions may be less effective than other mechanisms in the UK where there is evidence of a low skill equilibrium in the operation of the labour market. Based on these studies he concludes that training interventions may have a positive effect on employment outcomes but that they are less effective than some other mechanisms (such as sanctions and job broking/advice and guidance) and that they are most effective when delivered on a small scale and targeted carefully at specific groups. This seems to echo the findings from recent research in Sweden and Switzerland on the effect of ALMP training interventions on long and short-term earnings which seems to suggest some 'lock-in' effect of training interventions and negative earnings impacts (Sianesi, 2001).

Meager (2008) notes that there are two potential limitations to these conclusions. First, it may be that when considered over the longer-term training interventions have more positive outcomes in terms of employment/earnings due to their 'slow-burn' nature. Second, studies at the aggregate rather than micro-level show training interventions in a more positive light and this may be because they improve the degree of demand-supply matching and thereby reduce transitions into and out of unemployment (e.g. Boone and Van Ours, 2004).

Meager's (2008) conclusions, limitations notwithstanding, have implications for the type of Active Labour Market Policy that might be more successful, particularly suggesting that the more neo-liberal oriented focus on sanctions and activation (sometimes referred to as 'Work First') is more successful than the more substantive training offered in for example, the Scandinavian model<sup>17</sup>.

However, a range of more recent research has sought to question this by focussing on the possible additional or invisible effects of training (sometimes referred to as human capital interventions) and questioning the longer-term impact of sanctions and the intensity of monitoring compliance (or activation interventions). Broadly, the hypothesis pursued is that while intensification of sanctions and monitoring might produce impressive results in immediate job outcomes, the medium to long-term impacts may be less positive due to job seekers having poorer matches to jobs, accepting lower reservation wages and staying in employment for a shorter duration. In addition, the initial results of activation interventions relative to training may simply be because the job seeker is unavailable for work during the period of the training programme. Put simply, if this holds true, it suggests that the short-term gains from quicker initial off-flows from

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<sup>17</sup> It is also often asserted that the Scandinavian model is more egalitarian than the UK approach because there is less emphasis on activation and incentive tightening as opposed and more emphasis on providing generous welfare benefits and training. However, some recent research questions this ( see Johansson and Hvinden, 2007).

unemployment/inactivity associated with activation as opposed to training interventions might disappear over-time because of negative employment *quality*. This would be a further issue for competitiveness because it suggests that activation interventions may maintain low quality and low skilled employment at the bottom of the labour market.

In an evaluation of a randomised social experiment in Denmark where one treatment group received the standard ALMP intervention (consisting of training and monitoring/sanctions) and a second received an intensification of monitoring and sanctions, Blasco and Rosholm (2010) find that this hypothesis holds true and that positive effects on long-term unemployment durations is purely a result of the quicker initial post-intervention off-flows. These findings are similar to those of Jespersen *et al.* (2008) who also compares the relative performance of public and private job-related training and classroom based training, finding that the latter has much less positive impacts. They also concluded that a full assessment of the impact of training interventions for the unemployed require long-term perspectives rather than immediate employment outcomes.

In the United States Hotz *et al.* find that classroom based training initially lags more 'work first' interventions but over the longer-term they catch up and out perform them (Dyke *et al.*, 2006; Hotz *et al.*, 2006). For Germany, Osikominu (2008) compare short job-search focussed training and more traditional substantive training for their effect on unemployment and employment duration. They find that while shorter job-search training has a more positive outcome in terms of shortening unemployment duration, longer-term training is associated with lower returns to unemployment and longer-term employment duration. This would appear to be supported by case study evidence from Australia presented in this report. Similarly Fitzenberger and Speckesser (2005) investigate the provision of specific professional skills in Germany using an administrative dataset and find that training has negative short-term effects on unemployment duration but positive employment outcomes over the longer-term. Cueto and Mato (2009) consider the comparative impact of training in ALMP programmes in Spain and find that training increases employment outcomes by eight to nine per cent, though they also note substantial creaming effects in the assignment to training and therefore selection bias between their treatment and control groups. Card *et al.* (2010) found in a meta-analysis of 97 evaluation studies in 26 countries between 1995 and 2007 that training programmes have greater impacts in the longer term (after two to three years) than the short term (after one year). Boone and Van Ours (2009) provide an analysis of the effectiveness of ALMPs in 20 OECD states and identify the benefits in reducing the low pay no pay cycle.

Other research suggests that the benefits of substantive training to boost human capital are greater during periods of high unemployment, because the impact of short-term lock-in effects are less damaging where there is greater labour market 'slack'. Evaluations that identify weak employment effects associated with training may also fail to acknowledge that there is likely to be a time-lag before human capital improvements feed through to improved labour market status (see the review of US evidence by Meadows, 2006 and recent UK evidence presented by Nunn et al., 2010a).

Recent research on the UK is broadly consistent with the finding that training interventions (sometimes referred to as 'Train First') can have positive impacts for jobseekers. For example, research for the Department for Work and Pensions suggests that jobseekers who took part in both volunteering and training in the Evaluation of the Six Month Offer reported enhanced skills and motivation. They also report some positive hard outcomes from training in findings which appear to be broadly consistent with the (longer-term) beneficial outcomes associated with training interventions reported in other studies above (Adams *et al.*, 2010). Cheung and McKay's (2010) analysis of the British Household Panel Survey found that those participating in government training schemes were the second largest group (after women returning from maternity) moving from inactive status to employment. They also undertake logistic regression, showing a causal effect between participation in training and transitions from not working to being in paid employment. Echoing the positive findings about the relationship between training participation and employment duration they find that training reduces the chance of exiting employment into unemployment (Cheung and McKay, 2010).

Nilsson (2010) draws attention to the way in which training provision and skills enhancement, especially employment related skills, may help to alleviate the development of youth unemployment in the first place. Indeed many vocational education and training programmes, such as apprenticeships, are designed to assist in the vulnerable transition period between full-time education and the labour market and it may be that better targeting of people who are at risk of dropping out of the education system (such as at the GCSE options stage, using qualitative assessments such as attendance and aptitude in combination with negotiation with parents) is important in further strengthening the employment and skills systems. The Review of Vocational Training (Wolf, 2011), which was published recently, calls for fundamental changes to the system to encourage uptake of the most valuable vocational qualifications, ensure that study programmes open up a number of progression routes and provide apprenticeship frameworks which encourage the delivery of skills which meet the needs of the workplace.



The evidence associated with the role of training in ALMP above suggests that it is generally a relatively small element of intervention in the UK. ALMP in the UK has been dominated by measures such as job-matching/brokering activities, job-search advice and assistance, and an increasing use of sanctions for non-participation (Meager, *op cit.* p.9). There is also some debate about the relative value of work-first (with an emphasis on monitoring and job search) and training based approaches to supporting the transition from worklessness to employment. Although the evidence is complex and mixed, on balance it suggests that training based interventions may not lead to quicker off-flows (however this is due, at least in some part, to the time recipients are in training). Adopting a longer term perspective suggests more positive outcomes for ALMP involving training in terms of sustained employment and the reduction of the low pay no pay cycle.

#### **4.4 Developing skills**

In a review of the way that employability skills are 'taught' in a variety of different settings Nunn *et al.* (2008a) identify several common features that stand out in more successful interventions. These include the need to match training provision to learner needs and to avoid school-like settings and methods. This is particularly important in brokering engagement and overcoming motivational barriers to learning. They also stress the general importance of simulating or learning in work-based contexts and settings. However the evidence associated with employment outcomes is mixed.

For example, Nunn *et al.* suggest that the benefits of Basic Employability Training (BET) available through the Work Based Learning for Adults (WBLA) programme as a package of basic skills, employability and job specific training are mediocre in terms of employment outcomes. Occupationally focussed training whether of longer or shorter duration had better employment outcomes, which suggests that people with basic skills problems have a longer distance to travel and perhaps need to correct basic skills problems before engaging in more specific training linked to job readiness. They also suggest that in some programmes with long-term unemployed and inactive participants Cognitive Behavioural Therapy used to overcome negative (in employment terms) behavioural patterns and a lack of confidence has met with some success in addressing these barriers to employment.

In relation to the endogenous factors of quality and effectiveness of the training involved, several evaluations offer an insight into the current situation that are worth learning from in thinking about the design of future interventions. Evaluation of the Flexible New Deal and additional support measures introduced since the onset of the recession suggest that the types of training referred to by Jobcentre Plus Advisors is highly-employment focused and linked to qualifications required for specific entry-level occupations such as

Construction Skills Certification Scheme, Security Industry Authority licenses or similar (Knight *et al.*, 2010). It is not clear however, that qualifications linked to these sorts of licensing regulations equip people for progression in the labour market, though they are clearly related to the potential for transitions out of unemployment/inactivity. Evaluations of new training provision for the unemployed delivered in FE colleges suggests that despite efforts, colleges need to undergo a culture change to be able to better focus on helping learners make the transition to employment. In a recent evaluation of employment focused training for young unemployed in FE colleges, the Learning and Skills Council recommended that colleges need to be highly proactive in developing and maintaining regular contact with Jobcentre Plus advisers, should consider setting up mentoring schemes to support unemployed learners while at college, and should follow the example of certain colleges and set up employer-facing teams who can assist in finding work placements, assuming that appropriate resources are available and can be dedicated to these developments (LSC, 2009).

Engaging with individuals with no or low qualifications is a challenging process. Many interventions aimed at those with no or low qualifications aim to promote 'life skills'. Such programmes offer a starting point for engaging with this group. Research suggests that the combination of labour market contact, work experience and in-work training has been found to be most effective for people with low skills. The desirability of an integrated approach for pre-work and early work experience underlines the key role for employers in the design and delivery of support for disadvantaged groups (Dench *et al.*, 2006). It is increasingly recognised that interventions work in combination rather than as separate and discrete elements of support. Those most at risk of disadvantage often suffer from multiple barriers to work and it is important that interventions recognise this and have the flexibility to be able to deliver different services at different times.

The case studies provide an indication of the approaches used in different international settings and reveal mixed findings associated with differing client groups, delivery outcomes and timeframe. For example in Denmark, providing unemployed people with new skills is one of several aims of the country's employability policy. The most important active measures are: 1) guidance support of job search activities, 2) standard education (where unemployed people participate together with students and/or employed people), 3) special courses (where only unemployed people participate), 4) firm-based training (short-term and 'light' training often used for immigrants and their descendents in combination with language courses), and 5) wage-subsidy jobs (for six months – in the private sector the rate for the job is paid, in the public sector the unemployment benefit is paid).

One of these programmes fostering school-to-work transitions identified in the German case study is the 'entry-level qualification' for young people with various barriers to taking up regular training in the dual apprenticeship system. This measure offers an internship of six-to-twelve months in a firm and is supported by a monthly subsidy, as well as support to social insurance coverage of the trainee. The programme has shown good evaluation results. In 2005/06, after completion of the programme, 63 per cent of beneficiaries started a regular training or employment contract in the private sector, compared to 30 per cent of the control group (BMAS, 2009; Becker *et al.*, 2010; Konle-Seidl, 2010, p.20) and has been extended to run to 2014.

In Australia the public employment service, Centrelink, is responsible for some aspects of the system but the provision of services is contracted to private and voluntary sector providers engaged in what was called 'the Job Network' and has since become 'Job Services Australia'. The policy emphasis is 'work first'. The creation of Job Services Australia has also provided more substantial and individualised support to the most disadvantaged with the aim of overcoming problems of 'creaming' and 'parking' by providers. The new system was introduced in 2009 and some early reports suggest that there is a greater use of training to support the unemployed (Finn, 2010).

In the new system jobseekers are categorised into one of four 'streams', with the most job ready referred to stream 1 and those with 'severe barriers' referred to stream 4. A provider must provide an individually-tailored 'Employment Pathway Plan' which maps out any training, work experience or additional assistance the service user might need to find sustainable employment. On completion of a stream, usually after twelve months, the user may be reassessed and moved to another stream, or be required to participate in work experience activity. Jobseekers and employers are able to exercise a degree of choice over which provider they use (Finn, 2010, p. 30).

Joint action in the UK by the DWP and BIS has seen the development of new pre-employment training programmes and increased funding for apprenticeships. Apprenticeships are identified as an effective means of improving skills, combining a mixture of work-based training and theoretical learning. They provide the opportunity to combine productive work along with learning experiences that lead to demonstrated proficiency in the workplace and a sense of occupational identity. An extensive range of occupations are now covered by apprenticeship training. The rates of return often exceed alternative training methods for middle-skilled jobs and they provide a transition route to a career for many young adults. They are increasingly popular with those who prefer learning-by-doing and earning-when-learning however demand outstrips supply, with the vast majority of employers in the UK economy (predominantly smaller employers) not currently involved in apprenticeship training.

Apprenticeships are key components of employment and skills systems in many countries. In the United States for example, the apprenticeship system is highly decentralised with registered programmes operating under the supervision of the US Labor Department's Office of Apprenticeship (OA) and State Apprenticeship Agencies. As of 2008, about 27,000 registered apprenticeship sponsors were training about 480,000 apprentices. However, Federal support for apprenticeship training is low. One recent example of how a state has encouraged apprenticeships is Apprenticeship Carolina. By 2010 this model had run for three years and has been argued to show the potential for expansion at modest relative cost. The state government funded a US\$1 million per year expansion initiative based at the state's technical colleges and, combined with offering annual employer tax credits of US\$1,000 per apprentice per year, an average of one new employer-sponsored apprenticeship program per week was registered. This more than doubled the number of apprentices in the state. The initiative has also been argued to have created new links between the state's technical colleges and the business community due to the direct links between the colleges and participating firms with the apprentices (Lerman, 2010).

#### **4.5 Information, advice and guidance**

Although identified as a key element of successful Welfare to Work intervention this study revealed little robust evaluation evidence associated with the impact of information, advice and guidance (IAG) on the transition from benefits to work. What evidence there is tends to focus on the provision of IAG for young people in educational settings and emphasises learning as opposed to employment outcomes. In a recent review of the literature (along with a small number of interviews with leading figures from industry and education) in a study commissioned by Careers England, Hughes (2010) concludes with a number of recommendations to inform the development of the all age careers service which include:

- Building careers service provision based upon a universal approach, additionally including targeted provision for the most vulnerable, would provide optimal reach to individuals and more effective and intelligent use of available resources. The need to balance and target resources effectively, particularly to those most in need, remains a key challenge for the coalition government and for providers of education and employment.

- The broad policy principle to be further developed is three-fold: empowering the consumer, focusing on learning outcomes and placing greater trust in providers in the delivery of skills and careers services in order to achieve more for less. High-quality and high-impact careers service provision that is independent of learning providers, informed by the labour market and provided by specialist professional careers advisers. Providing opportunities for the active engagement of all individuals in some form of learning as a pre-requisite for social mobility.
- The centrality of education as a catalyst for change in making a difference to social mobility is undisputed; however, the mechanisms deployed to encourage a more equitable social distribution of life chances and the relationship between education and the workplace remains contested territory. The significant savings to the public purse of just a modest reduction in NEET<sup>18</sup> (and those on benefits more generally) and the costs resulting from ill-informed career or study choices leading to course switching, non-completion of studies and/ or unemployment are apparent.
- New market-based models of provision in education and careers services are beginning to emerge in different forms. There was broad consensus that totally separate services for young people and adults can produce duplication and wastage of scarce resources. An opening up of the careers sector market brings new possibilities for the design and implementation of a progressive approach to an all-age careers service in England. This also presents potential threats, particularly for government, in safeguarding the interests of those most vulnerable in our society. There is a call for a new accountability framework that focuses on diversity and equality with particular emphasis on narrowing the attainment and achievement gaps between different groups in our society, particularly those most in need.
- A consumer-led approach with increased demand for accurate information, particularly on returns for investment and labour market trends, means that a closer connectivity between education, employers and careers professionals must be encouraged by the coalition government. A partnership model is also required, with careers advisers working within institutions from their position of independence by being employed by the all age careers service, and bringing labour market and wider opportunity market information into every school and college (this may be extended to other environments e.g. employers, VCS).

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<sup>18</sup> Not in education, employment or training.

- The decision making processes of young people and adults are influenced by many sources of information and advice including family, friends, the media and the internet. These informal sources of information and advice can, in some cases, be very helpful; however, they may not always be reliable, impartial or accurate. In this sense, the 'unique selling point' of professional sources of Information, Advice and Guidance, including quality assurance kite-marks, may be the reassurance of the authority and impartiality that they confer. This is particularly true within the context of schools with sixth forms, and for pupils whose parents/carers may have limited career horizons; but it is also true for adults seeking reassurance or clarity and whose horizons can be widened by interaction with an informed and impartial professional adviser.
- Given the rapid expansion in technology and its apparent cost-effectiveness, it would be reasonable to conclude that its use within an all-age careers service framework may become even more prevalent and significant for a government forced to make the harsh savings in public expenditure required by the budget deficit.

Hughes concludes that the evidence demonstrating the impact of IAG is greater for learning and education than it is for employment outcomes;

It is often difficult to demonstrate the direct impact of IAG support activities given the behaviour of individuals is complex and subject to many interacting factors, hence reaching clear conclusions about the effect of a particular measure can be 'hazardous', to say the least. As a result, research evidence needs to be interpreted with great care. The evidence generally demonstrates that careers services and careers support activities can and do make a significant difference in terms of learning outcomes such as increased self-confidence, self-esteem, motivation, and enhanced decision making. There is also strong evidence that information advice and guidance supports significant participation in learning and educational attainment. For progression into employment, the case is less clear although there is some evidence that highly intensive support for the unemployed can make a difference. This is not to say that careers support activities have no value in producing longer-term employment outcomes, but that it is more difficult to demonstrate the unequivocal connection. IAG can and does play a significant role in supporting individuals' attainment, achievements and access to information and networks (Hughes, 2010, pp. 47-48).

#### **4.6 Aligning employment and skills**

The policy goal associated with the need to integrate the employment/welfare system with the skills provision system has been a major priority over recent years (Leitch, 2006; Department for Work and Pensions, 2008c). Collaboration between partners at a local level appears to be an important element of the emerging Work Programme (Department for Business, Innovation and Skills, 2010; HM Government, 2010).

The Integrated Employment and Skills service was a pilot which sought to test out some new ways of working post Leitch. The Integrated Employment and Skills service involved newly unemployed welfare claimants undergoing several stages of skills assessments. The initial 'light touch' assessment being carried out by the Jobcentre Plus adviser, then for those requiring skills interventions a referral to either for a more detailed skills need assessment or directly onto provision. Co-location of Jobcentre Plus and nextstep advice services in Jobcentre Plus offices was core to the approach. The process evaluation of the trials (Levesley *et al.*, 2009) suggested that although good working relationships existed between Jobcentre Plus staff and nextsteps advisers the systems and process did not enable a fully integrated service. (Levesley *et al.*, 2009). This highlights the practical challenges to the achievement of a genuinely integrated welfare and skills system and substantive shift from 'work first' to 'work first plus' approaches. Of course identification and assessment of need is only one stage in the process. What matters for the transition to employment is that this assessment stage is effective in identifying skills gaps related to employability and career progression and that it is followed by good quality training to fill that gap.

The alignment of employment and skills features in the US case study accompanying this report (see Annex). For example, it draws attention to the Manpower Demonstration Research Corporation Work Advancement and Support Center (WASC) demonstration which tested an approach designed to help workers keep their jobs or find better ones and to simplify access to programmes intended to provide financial support to low paid workers (e.g. child care subsidies, food stamps, Medicaid, and the earned Income Tax Credit). The services were provided via 'One-Stop Centers' by newly-integrated teams of retention-advancement staff drawn from the local workforce programmes and work support specialists from welfare agencies.

The case study also identifies some further key characteristics associated with the alignment of economic development, skills and employment at the local level. A particular focus of the American Recovery and Reinvestment Act (ARRA) is to meet the skills needs of existing and emerging regional employers and high-growth occupations. To this end the Federal Department of Labor works with states (through Workforce Investment Boards) to integrate assessment and career counselling into their service strategies to align training with areas of anticipated economic and job growth. A further emphasis of this approach is the strengthening of partnerships between Workforce Investment Boards, employers, economic development agencies and education institutions. The intention is to align education and training at every level (O'Leary and Eberts, 2009). A further initiative in the US, the Career Advancement Portfolio (see annex) was launched to enhance, expand and disseminate solutions for advancing low paid individuals to good jobs (Jobs for the Future, 2006) (see section 5.85).

Integration of information, advice and guidance / careers services is core to the alignment of employment and skills systems and provision of a seamless service for individuals. Partnerships, co-location of experts and the working relationships between experts are only part of the solution. Simple and flexible processes and systems to support the delivery and experience of the service are core to its effectiveness.

#### **4.7 Towards ‘what works’**

There have been some attempts to ascertain ‘what works for whom’ in Active Labour Market Policies (ALMP) at the European level. Kluve (2006) summarises some of these up to 2005 and while some positive effects are found associated with a specialised vocational employment scheme (Denmark), labour market training and employment subsidies (Finland) and educational programmes (Norway) the benefits are mixed (and often marginal).

The international case study evidence attached to this report points to the potential benefits associated with skills-based welfare to work interventions. For example the case study evidence suggests that ‘standard education’ training provision has delivered positive impacts in the long-term (for example, after a period of six years) in Denmark but also that wage subsidy programmes have delivered positive, more immediate, outcomes in terms of job entry and retention. The German case study evidence similarly points to the potential job and wage benefits associated with skills interventions, with occupation-specific and other forms of vocational training producing positive outcomes. An important additional finding from the German evidence is that the introduction of vouchers (and so possibly a greater choice of more specific training options) may potentially produce a better match between individuals, training and work opportunities.

The case studies offer less positive evidence on the skills and employment outcomes associated with so-called ‘work first’ interventions. For example, evidence from Australia appears to suggest that apparent improvements in immediate job entry rates achieved by ‘job network’ contractors were balanced by problems around the quality and sustainability of outcomes, and processes of ‘creaming and parking’ (whereby providers are incentivised to target support on those closest to the labour market rather than those most in need of help). Recent changes to the funding of welfare to work in Australia seem to acknowledge these problems, by increasing rewards for providers achieving sustained job outcomes for clients and offering additional funding for agencies working with the hardest to reach groups. Of course, these individual pieces of case study evidence need to be viewed in relation to the broader evidence base, which suggests that training-based welfare to work services are often less effective than some other interventions at achieving short-term job outcomes but may deliver better long-term benefits.



The multiple barriers that some disadvantaged groups face are often highlighted in the literature. As part of their examination of existing evidence relating to the psychological and social influences on workless people in deprived areas, Ritchie *et al.* (2009) concluded that policy implications that are restricted to advice, guidance, confidence-building and motivational encouragement (or to sanction, penalty and retribution) are unlikely to make significant impact into workless communities. Moreover:

The persistence of worklessness across periods of economic buoyancy and labour market opportunities suggests that the objective barriers and constraints to taking work that confront and constrain workless people are neither trivial nor simple. The research cited suggests that they are likely to be complex, multifaceted, deep-rooted and individually varied ... Programmes which rely largely or wholly on single 'magic bullet' interventions are unlikely to adequately address the needs of substantial numbers of potential jobseekers within workless communities (Ritchie *et al.*, 2009, p. 56).

In general, holistic and personalised services tend to be effective, but unsurprisingly, different approaches work for different types of customers. However, it needs to be borne in mind that it is often unclear as to whether differences in programme impacts on different subgroups are due to intrinsic differences between the groups or because they were treated differently under the programme. This conclusion is to some extent supported by the case studies undertaken as part of this research, which suggest that the success of specific skills-based welfare to work initiatives varies considerably according to timescale and client group. For example, we have seen that Australia's more 'work first'-oriented provision has produced some benefits in terms of immediate job entries for people on benefits, but that evidence on the sustainability of those outcomes and progression to better quality jobs is less positive. Australia also appears to offer the example of a funding system that has until recently failed to incentivise the targeting of those with the most serious skill gaps. Denmark's experience is that targeted training and education interventions can deliver benefits for more disadvantaged groups, but that positive returns to training are often maximised relatively long periods after the completion of training.

In Germany, training has been by far the most important active labour market policy measure in terms of expenditure, as well as in terms of the number of participants. After the Hartz reforms, expenditure on, and participation in, training measures has declined markedly. Existing evaluation studies on training measures in Germany use different data, methods and time periods, and they show no consistent results. Positive effects of training seem to occur (if at all) in the longer-run. Indeed, it is possible that training interventions may report limited positive effects (or even have a negative impact) in the short-term, but still deliver stronger positive benefits in the long-term. Case study evidence from Germany does however suggest that voucher mechanisms, where the job seeker is able to pay the training provider (Bruttel, 2005; Rinne *et al.* 2008), may offer

one route to improving choice and the tailoring of training for specific client groups. This voucher system (*Bildungsgutschein*) provides job seekers with the ability to select their training provider/s from among a very broad set; the only restriction being a minimum quality standard

Unfortunately one major conclusion from these studies is that there is a lack of robust evidence about the successes of ALMP policies and in particular a lack of evidence about what one country can learn from any other. Despite recent attempts to move beyond this position, the evidence that does exist tends to be undifferentiated by the type of programme and limited in its exploration of the specific role of 'skills'. In the interim report on progress in their worklessness co-design pilots, DWP (2011) reflect upon what the significant number of department-commissioned evaluations have told them about what works in UK welfare to work initiatives. Hasluck and Green's (2007) meta analysis of research undertaken for the Department of Work and Pensions on providing support to unemployed and inactive welfare recipients provides a comprehensive overview of the evidence associated with 'what works for whom'. In sum, Hasluck and Green's findings suggest that the following factors are determinants of success across the board in welfare to work interventions.

- Motivation – Motivation: motivation of the job seeker (often manifest in voluntary as opposed to mandatory training) is crucial to success.
- Work experience/simulation: interventions which are work-focussed and offer participants the opportunity to gain real or simulated work experience.
- Skills interventions tailored to the workplace and skills needs: so that training is matched on the one hand to labour market demand and on the other the specific skills needs of the individual jobseeker, including the sequencing of skills needs so that basic skills needs are corrected before technical or job specific skills needs.
- Delivery mechanisms that secure buy-in from the subject: such as outreach and delivery in a style or environment that does not alienate the jobseeker or present a barrier to access.

The key findings are highlighted below for selected disadvantaged groups.

#### **4.7.1 Young people**

The initial New Deal for Young People (NDYP) allowed some participants to engage in full-time education and training leading to a qualification. Hasluck and Green (2007) report that participants were very satisfied with this option but do not provide any evidence of outcomes. However, they do suggest that motivation is a factor in success, with those participants that had chosen the option themselves being more positive and

engaged than those that hadn't. They also suggest that evidence of outflows from the programme suggest that people with qualifications were much more likely to enter unsubsidised employment than those with low or no qualifications and that in terms of outflows the best option within NDYP for the most disadvantaged was the Full-Time Education and Training option.

However the authors conclude that answering the question 'what works' for young people (or many other disadvantaged groups) is not straightforward. The circumstances facing individual young people may vary dramatically and provision can be multifaceted with various interventions combining to support individuals. The evidence suggests that those with qualifications (level 2 and above) were much more likely to leave New Deal for Young People (NDYP) for a job than those without qualifications (or with low level qualifications). It also suggests that while participants may gain benefits in terms of enhancements in their employability (skills, qualifications, work experience and so on), this was not always translated into employment entry and a job. Some groups (e.g. young disabled people, ethnic minority groups) generally reported a less favourable experience of NDYP although the reasons for this are not identified.

More recently the OECD (2010) reported that standard active labour market programmes are unlikely to work for the most disadvantaged youths. The OECD suggest that for this group, more in-depth strategies are needed. They recommend that for at least one year a mix of adult mentoring, work experience and remedial education is necessary to reconnect disadvantaged youth with learning and work.

#### **4.7.2 Older people**

There is some evidence of what works in relation to helping older unemployed workers to enhance their skills as part of the transition back into employment. The evidence suggests that it is necessary either to update skills or facilitate retraining and then that there are a variety of barriers to undertaking training which need to be overcome, mainly associated with motivation and confidence. Hasluck and Green (2007) suggest that take-up of training support under the ND 50+ was low and that *there was little consensus in the evidence about how to organise training to have the best effect*, though they do imply that work to identify a match between training provision and employment objectives helps to build motivation but that this may need to be carefully explained. They also suggest that there are some areas, such as basic IT skills, where age-specific training and cohorts may be advantageous. Notwithstanding this, they suggest that diversity in supply is most suitable to meeting the needs of older workers.

In common with other groups most at risk of labour market exclusion, no single model of delivery is associated with effective intervention. A review of the literature suggests that an understanding of 'what works' in terms of training older people is generally lacking (Phillipson and Smith, 2005). Nevertheless, in terms of getting older people into work the evidence generally suggests that:

- early advice and guidance can help to offset the loss of self-confidence older people may experience, reorient them in the labour market and help them overcome employer age discrimination;
- an advisor who is committed to the customer, understands the problems that they face and is personally committed to them is highly valued;
- training interventions need to be designed that seek to allay concerns associated with, for example, the reluctance of some older people to become involved in learning because they are too old and/or they do not need skills because they already have extensive experience.

Interventions also need to reflect the skills required in the local labour market and be affordable. Recent research suggests mixed findings about the effectiveness of wage subsidies, for example. Boockmann *et al.* (2007) concluded that hiring subsidies for older job seekers in Germany had positive impacts only for very specific groups (women in East Germany). In general, interventions need to enable older people to make informed choices associated with skills acquisition; what they need, where they might get it and what they may expect to gain. There is some evidence that trial periods in work are particularly important for older people (particularly if they are moving into different occupations or sectors) because they offer an opportunity to those who might not be considered by employers using conventional recruitment methods. The quality of employment is an important (and often overlooked) factor for older people.

#### **4.7.3 Lone parents**

New Deal for Lone Parents (NDLP) was initially voluntary and involved a greater degree of diversity in the training available, though it was limited in being up to NVQ level 2 only. The evidence reviewed suggests that training was not a major incentive for participation on NDLP and that those with lower skills were less likely to participate or feel that NDLP could help them make the transition to employment. Skills barriers were also not a major barrier to employment cited by participants, who suggested that childcare and lack of work experience were bigger issues. Moreover, consideration of labour market outcomes suggested that participants who did opt to engage in training provision were less likely than others to have an employment outcome, though it is noted that this may be due to self-selection in the decision to undertake training (in addition to timing issues e.g.

employment outcomes may simply be achieved over a longer duration). Interestingly, NDLP had an impressive record of employment outcomes and lone parents were always more satisfied than other customer groups with Jobcentre Plus services (Nunn *et al.*, 2009). It may be that this is because the programme was voluntary, substantial support was available to those that genuinely wanted it and therefore provision was matched with motivation from the outset.

Hasluck and Green (2007) found that the most useful aspect of the work-focused interview was that the advice and guidance offered to customers which acts as a key source of encouragement, and facilitates access to additional forms of support. Indeed, a principal aim of the interview was to encourage participation in NDLP through which such additional support may become available. Support for lone parents on NDLP extended beyond the benefit claim period into the early weeks of employment. Personal advisors are able to use the Advisor Discretionary Fund (ADF) to provide funding that helped to overcome barriers arising at the transition from benefit to work as well as providing continuing in-work support after the lone parent had started work. Key factors identified in the effectiveness of NDLP include highly motivated and committed personal advisors with a high level of flexibility and autonomy to tailor services to clients' needs and good case management skills. Evidence generally suggests that improving basic skills among lone parents is important for sustainable employment. Workplace flexibility policies have also been found to be important since lone parents of school-age children continue to face the considerable challenge of making work and childcare hours 'fit'. Provision for lone parents relies heavily upon interventions that provide support in the form of advice and guidance. Such guidance has predominantly been directed at encouraging entry (or re-entry) to work by bolstering confidence and demonstrating that 'work pays'. Research evidence suggests that the most effective interventions for lone parents include a range of interventions which help with job search and job-matching as well as getting 'back to work' help, such as confidence-building, updating or obtaining new skills, and help and information about childcare.

#### **4.7.4 Disabled people or people with health problems**

Hasluck and Green identify little evidence associated with the impact of skills interventions for disabled people or those with health problems. It should be noted however, that it was also suggested that the success of all interventions, including skills-related, were often dependent at the individual level on an improvement in underlying health conditions and/or employer willingness to engage with the programme and recruit participants, suggesting that these factors are perhaps more important for this group than others. In common with other groups most at risk of labour market exclusion, no single model of delivery is associated with effective intervention. Strong management, use of

management information, close team working and an outward-facing approach characterised by proactive marketing, good links with and awareness of other services are identified as important features of an effective service (Sanderson, 2007). A range of measures are required, increasingly in a multi element package, which together with differences between interventions in the range of services provided, mean that it is difficult to ascertain which elements work most effectively for whom. However, research suggests that intervention does make a difference, increasing both the numbers leaving benefit as well as numbers going into and staying in work (Blyth, 2006). Overall, the evidence suggests that:

- disabled people or those with a health problem appreciate a highly individualised approach that helps them to set goals and make progress towards them;
- strong relationships with a core intermediary and maintenance of contact by that intermediary are particularly important in achieving longer term progress towards employment.

Placement in the world of work is a key element in successful intervention and critical success factors include: establishing a smooth and comprehensive pathway from an individual's entry to the scheme to employment; targeting job opportunities in the labour market where there are skills gaps or labour shortages; giving employers a suitable candidate for a job (rather than 'labelling' the client as a person with a disability or health problem). Practical assistance including pre-selection is an important element of successful intervention and providing individuals with access to post recruitment support can be an important element in easing the transition to and retention in work. Training can be an important element of a job brokerage service; however it is difficult to separate the impact of interventions using training from those concerned with, for example, advice and guidance and work placements. Speedier access to treatment services can, in some cases (for example injury) enable a quicker return to work thus heading off longer term absence through health-related problems. Providing support at an appropriate pace and intensity is an important aspect of intervention in the support of disabled people.

#### **4.7.5 Ethnic minority groups**

For this group qualifications are particularly important in determining labour market success, though the group is heterogeneous and different ethnic minorities perform differently. One major issue for some (though not all) in this group is numeracy and literacy in English. Like other groups it is also suggested that provision to meet these needs must be employment orientated to the types of tasks and functions likely to be found in the jobs the individual will apply for. A willingness to engage and motivation are again a major determinant of the success of interventions and it is suggested that out-

reach has had some success in overcoming trust issues. Similar to disabled people, the evidence reviewed by Hasluck and Green (2007) also suggests that demand side factors may be important, especially in relation to discrimination so that skills interventions cannot necessarily succeed on their own.

One programme was identified as being particularly successful in engaging ethnic minorities, the Jobcentre Plus Ethnic Minority Outreach (EMO) programme (LSC, 2007). This was implemented using a community-level, multi-stakeholder approach, involving projects and providers working with participants and employers, local jobcentres and other agencies. A combination of three main approaches were used: (i) outreach-based provision; (ii) employer-focused provision, sometimes involving subsidised work placements; and (iii) positive action training. The evaluation of the schemes concluded that these initiatives were effective at reaching those who had not previously made use of Jobcentre Plus services, although not all EMO clients wanted to register with Jobcentre Plus. Overall, the evaluation concluded that EMO was judged to have had a major impact in increasing minority ethnic awareness of employment and training opportunities, especially among Indian and Pakistani women. EMO was found to have had a positive impact on engaging and increasing awareness of employment and training opportunities and take-up of mainstream services by under-represented groups, and on helping customers from ethnic minorities to move closer to the labour market. Language, an important issue in the delivery of services has been identified as an area in which improvements need to be made (that is, the language skills of staff delivering programmes). Evidence also shows that, in general, ethnic minority customers place particular importance on aspects of human interaction and the friendliness of staff with whom they come into contact.

A study on the effects of employment integration programmes targeted at recent economic migrants in Denmark found positive effects in terms of employment outcomes for language and subsidised employment programmes and short-term lock-in effects where language courses were combined with non-employment ALMPs (Clausen, *et al.* 2009).

#### **4.7.6 Overcoming multiple barriers**

Those that are long-term unemployed often face the greatest barriers to employment. In this case the evidence shows that many Jobcentre Plus Advisers feel that the training offered (through New Deal for those aged 25+) was insufficient to deal with the basic and employability skills deficits typically faced by the long-term unemployed, despite the availability of 26 and even some 52 week training options through the programme. They also report concerns raised by training providers about learner motivation when this is the

result of mandatory referrals and that where private providers had flexibility in delivering employment services outside of ND25+ (e.g. in Employment Zones) training was less a feature of provision than work experience. Hasluck and Green (2007) conclude that “Taken together with the evidence from Work Trials, the evaluation of Employment Zones suggests that what works best for long-term unemployed adults is exposure to a job” rather than training (pp. 51-53). Although no directly related research evidence is cited, it seems that bundles of provision that include the opportunity to gain experience in the workplace supports the transition from benefits to work.

The most disadvantaged often include people with serious drug and alcohol dependency, ex-offenders, homeless people, people with basic skills needs, people with learning difficulties, speakers of English as a second language and refugees. The review suggests that people identified as most disadvantaged in the labour market often have serious barriers to engagement with learning as well as employment and that formal training with a ‘back to school’ feel may be inappropriate. The involvement of outreach teams has been found to be a useful way of ensuring that this group can be engaged within the local areas they feel most confident in. For the same reason, Hasluck and Green (*op cit.*) suggest that community based learning is often important for this group and that peer group/cohort effects need to be managed carefully to ensure a successful outcome.

#### **4.7.7 Towards flexibility, aligned and holistic intervention**

Successive UK governments have arguably struggled to join up demand-side and supply-side interventions, or even develop spatially responsive skills provision that is adequately tailored to the needs of local labour markets (North *et al.*, 2009). This matters, because there may be benefits associated with the development of policy that is more responsive to local and regional labour market conditions. For example, in one of our case study countries, Denmark, during the 1990s and 2000s regional labour market councils were responsible for adapting national welfare to work to meet the needs of different labour market areas, apparently with some success.

The evidence underpinning this review consistently points to the need to move away from set programmes with rigid designs towards a more modular approach with support for any individual client designed as a package. Discretion to select from a range of different types of help is therefore crucial to the assembly of a package of support which can balance the needs of the individual with those of employers. For example, Willmott and Stevenson (2006) suggest that more consideration to gender differences should be made in the design of employability and skills training. They found that many initiatives focused on the development of practical skills (e.g. IT and job search) and not enough on



personal and social skills (e.g. assertiveness), the latter of which were more likely to be perceived as barriers by women participants. Other specific groups, such as people with learning difficulties or mental ill health and some ethnic minority groups with English language needs provide significant challenges in terms of accredited learning. The conclusion that emerges from the evidence is that there is no 'one-size fits-all' approach to intervention.

Key success factors are, however: community-based outreach work, delivery in non-standard locations, operating in a client-centred, flexible way, drawing together a range of services at a time that suits the individual. The evidence suggests that employers have a key role to play in the effectiveness of interventions for disadvantaged groups. It is important that training interventions reflect the skills required in the local labour market so that there is a match between the needs of employers and the skills set of the individual. Ongoing, in-work support can be an essential element of intervention, particularly for groups such as disabled people or those with health problems or those who have been out of work for some time.

The importance of an advisor/mentor is increasingly recognised. Surveyed beneficiaries of interventions have reported that they value the regular contact with, and commitment of, dedicated project Personal Advisors/Mentors – a role that allows for flexible and individualised services (Dewson *et al.*, 2007; Lindsay *et al.* 2007). Daguerre and Etherington (2009) have also highlighted the importance of securing personalised assistance for customers of public employment services as soon as possible following the submission of a claim.

A particularly effective tool for monitoring job search behaviour consists of setting up individual action plans with a set programme of tasks and obligations which are closely matched to the unemployed person's needs. Here an employment advisor plays the role of a mentor or professional coach to provide 'personalised' assistance early in the client's unemployment spell. For such a virtuous mechanism to take place, however, the employment service needs to work in close cooperation with social partners and local authorities in order to identify labour shortages and implement a coherent and integrated activation policy at the local level. Such a cooperative scheme has been trialled in Denmark and has delivered promising results (Daguerre and Etherington, 2009, p. 13).

Training (or access to it) is also an important element of the service provided by the personal advisor; however evidence of its impact is generally lacking and in some cases it appears that training is not a significant part of provision for some groups (noticeably disabled people and those with health problems) (Hasluck and Green, *op cit.*). It is also interesting to note that some groups, most notably older people, find that the challenges in becoming an 'informed consumer' of training or learning services can be a significant barrier to the take-up of services (EUBIA, 2010).

## 4.8 Key findings

- Different socio-economic groups (including young people, disabled people, lone parents, older people members of ethnic minority groups) in different locations have different needs which are best dealt with through local solutions. Holistic, personalised services tend to be effective but relatively costly, and different approaches are required for different groups. It is important to note that each individual will have a different combination of needs and barriers to work and that employers' will vary in their skill demands and willingness to engage with workless groups. Quality training interventions and information advice and guidance have a key role to play in supporting the transition from worklessness to sustained employment however the complexity of matching policy to the specific needs of both individuals and employers should not be under-stated.
- The evidence suggests that key success factors for intervention will include community-based outreach work, delivery in non-standard locations, operating in a client-centred, flexible way, drawing together a range of services at a time that suits the individual. Voluntary training options appear more likely to improve motivation and satisfaction and lead to more positive learning and employment outcomes than mandatory approaches. Accordingly, there is a need for caution when considering the extension of compulsion and sanctions on potential participants in training interventions. Exposure to a job (and training connected to this) would appear to be a key factor in making a successful transition to work. Such considerations will have important implications for the development and delivery of Welfare to Work (including the Work Programme) and skills policies in the current economic climate where job opportunities in some local areas may be limited and targeted intervention essential.
- The demand-side of the labour market tends to be somewhat neglected; however there is a key role for employers in the development and implementation of an integrated approach for pre-work and early work experiences. There is little evidence associated with 'what works' in relation to employers of different sizes or operating in different sectors and the role that they play in the design and delivery of support for disadvantaged groups.
- Many personal, institutional and structural factors impact on the transition from benefits to employment. As suggested in the previous section of the report there is no 'magic bullet' however the evidence does provide an indication of what might work in terms of welfare to work and skills interventions. These include:
  - matching training provision to learner needs and work-based contexts and the avoidance of school like settings and methods;

- the use of training which provides the basis for employment *and* learning progression (including interventions to promote aspiration, positive behaviours and self-confidence) and the appropriate scheduling of skills based interventions where required (e.g. to develop the basic skills prior to apprenticeship training);
- intensive information, advice and guidance which raises aspiration and provides a framework for progression in learning and employment.
- Further Education has a key role to play however the evidence suggests that many colleges need to undergo a substantial change in culture to better focus on helping learners to make the transition to employment. Effective partnership working between, for example, Jobcentre Plus, FE Colleges and other training providers, careers service providers, voluntary and community sector and employers is required. However the evidence suggests that public/private job-related training and employer engagement in the design and delivery of support is a key factor in the successful transition to employment.
- There is strong evidence that information, advice and guidance supports participation in learning, the development of key employability skills and educational attainment. However, the role of information, advice and guidance in supporting transition into employment is less clear and illustrative of the need to align the skills, employment and careers systems to support the transition from worklessness to employment with opportunities for progression.
- The international case studies provide an indication of the approaches used in different international settings and reveal mixed findings associated with various client groups, delivery outcomes and timeframe. The US case study provides several examples of partnership working at the local level which supports the transition of workless groups to jobs with opportunities for progression.
- The UK spends relatively little on Labour Market Policy in general although the proportion of spending that is focussed on active measures is relatively high. Nevertheless, training measures for the unemployed and inactive have formed a relatively minor element of ALMP. Among the most consistent findings emerging from the case studies and the evidence more generally is that training interventions deliver positive impacts, but that these tend to be more apparent over the long-term. 'Work first'-type interventions, such as job search support and more intensive sanctions regimes, tend to produce stronger immediate job entry effects whereas training or human capital interventions tend to be more effective in terms of sustained employment and the reduction of the low pay no pay cycle. These mixed findings provide a challenge for policy makers seeking to allocate scarce resources to welfare to work and skills interventions.

## **5 Skills and sustained progression in the labour market**

### **5.1 Introduction**

This section explores the role of upskilling in moving from low paid employment towards sustainable jobs with progression. Progression at work is central to government policy that seeks to improve social mobility and alleviate poverty while at the same time overcoming skills gaps which hamper competitiveness. Skills are viewed as essential to this agenda and in this section we draw on the evidence to explore retention in work and the dynamics of progression from low paid (sometimes referred to as ‘dead end’) jobs. We then draw on the evidence to explore the role of upskilling and identify five critical success factors to support progression from low paid work.

### **5.2 Retention in low paid work**

Several studies (Hoggart *et al.*, 2006; National Audit Office, 2007; Yeo, 2007; Ray *et al.*, 2010) suggest that a key factor which limits progression for those who gain low paid work is job retention: if workers lose their jobs frequently or sometimes spend lengthy time periods between jobs, their ability to realise substantial increases in earnings through work diminishes. Some of the barriers preventing employment retention mirror those that act as barriers to work in the first place such as lack of employment opportunities, employability skills, poor quality services (e.g. childcare) and employer human resource practices (Hoggart *et al.*, 2006). The Wolf Report (Wolf, 2011) highlights the problems many 16 and 17 year olds face moving in and out of short-term employment and education with little chance of progression in either. Lewis *et al.* (2005) identify the development of skills to manage and withstand change or life transitions to ensure that they are able to remain in stable employment as an important aspect of skills development for some groups at risk of labour market disadvantage.

Although some employers recognise the value of supporting retention for those making the transition off benefits into work many employers do not. Research (Devins and Hogarth, 2006) suggests that employers do not generally view employees (and particularly low-qualified employees) as a valuable asset. Relatively high rates of labour turnover (particularly related to low qualified or low paid workers) are a characteristic of some sectors and occupations and an employer’s approach to Human Resources (HR) can adversely impact on the retention and progression of workers.

### 5.3 The low pay no pay cycle

'Cycling' is a term that has been coined to capture the policy challenge presented by those that move between low paid work and benefits on a recurrent basis. Considerable evidence has emerged on the aspects and causes of longitudinal patterns of employment instability and movement between low paid jobs and unemployment (McKnight, 2002; Stewart, 2002; Cappellari and Jenkins, 2005; Ramos-Diaz, 2005; Fuertes, 2010; Metcalf and Dhudwar, 2010; Ray *et al.*, 2010; Shildrick *et al.*, 2010; Tomlinson and Walker, 2010). For example research suggests that more than one in five Jobseekers Allowance (JSA) Claimants entering work reclaim benefit after 13 weeks and two in five reclaim within six months (National Audit Office, 2007). Yeo (2007) suggests that just over a third of the jobs taken by a specific disadvantaged group (lone parents) last less than four months and half last less than one year. Those with low skills are identified as being particularly at risk of cycling. Research by Ray *et al.* (2010), using analysis of longitudinal data covering two years, showed that around half of those with low qualifications remained in work while the rest were split between those who did not enter work at all and those that entered work but subsequently left it again.

In the UK, experiencing unemployment of itself makes future unemployment more likely. There is also evidence of similarly strong persistence in low pay. An individual who is low paid is far more likely than an individual who is higher paid in the same period to be low paid in the following period. As well as this persistence in both unemployment and low pay, there is now growing evidence of a link between them, producing a 'low-pay no-pay cycle'. The low paid are more likely to become unemployed in the future, the unemployed are more likely to be low paid on re-entry to employment and this probability of being low paid rises further if the individual was low paid before becoming unemployed. These longitudinal patterns of employment instability and movement between low paid jobs and unemployment are particularly associated with aspects of low quality jobs; that is, insecure employment that fails to provide labour market security or progression. These labour market dynamics clearly reflect the policy challenges associated with cycling between periods of work and economic inactivity that hampers the effectiveness of the labour market as a means of alleviating poverty or enabling social mobility.

However for some in the labour market, remaining in work may not be an objective. Some workers may choose temporary employment due to the higher salaries or the flexibility offered by these jobs and others may choose to leave a job in order to, for example, undertake training and develop their human capital or develop a different work-life balance.

Employer policies and practices are identified as major factors influencing the 'the low pay no pay cycle'. In the United States, Holzer and Martinson (2005) suggest that for any worker with given personal characteristics, employment in large firms, unionised firms or firms paying higher wages reduces labour turnover. The more professional HRM resources and wider remuneration packages (including health care, for example) of larger employers and protective work rules at unionised establishments are identified as important factors likely to encourage retention. A recent study (Metcalf and Dhudwar, 2010) focused on low paid work characterised by flexible contracts and temporary and agency placements provides an indication of the human resource models adopted by employers. Of the 26 employer case studies included in the study, three main models were apparent which affected the security of workers in low paid jobs:

- a core-periphery model of HR (core of permanent workers, supplemented by use of peripheral, temporary workers);
- a permanent model where few temporary workers are used and if so only periodically;
- 'temp to perm' recruitment where employees are employed temporarily and then, depending on demand and their performance, moved to permanent.

The authors found that very similar employers in the same sector differed in the HRM model used. However, all revealed that progression opportunities were very limited, constrained by organisational size, by flat organisational structures or by lack of career, skill and training routes to higher levels within the organisation.

In recognition of the problems associated with retention and 'cycling' the emphasis of employment policies shifted focus not just on work preparation and job entry but also on job retention. For example, the New Deal for Disabled People included specific targets for sustained employment, to encourage Job Brokers to work with their clients post-placement to provide whatever support they perceive is necessary to help the client remain in work, and other New Deal programmes include a measure of retention (albeit at a relatively short-term 13 week measure). The Department of Work and Pensions (DWP) developed the Employment Retention and Advancement Demonstration (ERAD) project, which used an experimental evaluation design to assess the effectiveness of different types of intervention on longer-term outcomes, through a combination of pre and post-employment case-worker support and financial incentives. The initial evaluation evidence suggested that the take-up of post-employment support was lower than anticipated (although the reasons for this are not clear) and that a focus on advancement was particularly challenging (Dorsett *et al.*, 2007; Riccio *et al.*, 2008). The most recent evidence (Hendra *et al.*, 2011) provides an indication of the emerging impact of ERAD support on training activity and increased earnings for those in work. The study suggests that the intensive advisor support associated with information, advice and guidance on

training choice and how to translate new skills and qualifications into advancement in the labour market were equally as important as the financial incentives provided through the intervention. The research found that advisors encouraged those with lower qualifications to take up training although even substantial increases in training do not necessarily lead to short-term progression.

#### **5.4 Why do workers leave low paid jobs?**

There is limited empirical evidence associated with the reasons low paid workers leave their jobs however it is clear that people leave low paid jobs for a range of reasons (Nunn, 2008b). Sometimes it may be related to the quality of the job and they may find the work uninteresting or unrewarding. They may feel that the pay does not reflect the level of commitment required to do the job. In some cases inappropriate behaviour such as bullying or sexual harassment, favouritism or discrimination may play a part in the decision to leave. Some people may struggle to develop the self-efficacy or levels of performance or commitment to self development (through, for example, training) required by the employer and leave. Temporary and short-term employment means that one of the main reasons for leaving a low paid job is because the contract has come to an end. Sometimes this is short-term work arranged through an agency that can vary in duration from a few days to a few months. Other jobs are seasonal, where employers take on additional staff to cover peak demand in sectors such as agriculture, tourism etc. In some cases workers return to the same employer each year but do not gain the same rights as permanent staff.

The process of industrial restructuring continually affects labour markets and job change across occupations, sectors and geographical areas. In a longitudinal study, Shildrick *et al.* (2010) found that over time better quality jobs in the Teeside locality had gradually been replaced with low skill, low paid and insecure employment. The insecurity of this low quality work underscored the insecurity of the working lives of the study's subjects and was the key explanation for why their employment was not sustained. The dual labour market<sup>19</sup> is an important consideration and Ray *et al.* (2010) identify the importance of individual attitudes towards work insecurity that come into play in determining the quality of temporary work. For example, some people are more willing and able to withstand job instability than others. Younger men without family responsibilities often accept insecure work as a fact of life provided they earned enough 'to get by'. Attitudes towards temporary work may vary over the life course, particularly for women with children.

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<sup>19</sup> The "dual labour market" concept originally developed by the American economists Doeringer and Piore (1971), refers to two broad job categories, primary and secondary jobs: the former having relatively high pay and status, job security, good working conditions and opportunities for promotion through a highly-developed internal labour market; and secondary jobs of relatively low-status; poor pay, conditions and job security; and little opportunity for promotion or training.

Intermittent work is tolerated or even chosen to fit around the priorities of raising children. However, mothers can find that they are stuck in a cycle of intermittent work when they wish to prioritise more sustained employment and return to the workforce full time. What is clear however is that intermittent employment where workers realise no or low income can have a material effect on labour market progression and earnings over the lifetime (GEO, 2010).

Ray *et al.* (2010) suggest that even for those who have been in employment for some time, the termination of a temporary contract, failing business, redundancies or workers being laid off following an illness or injury can lead to involuntary job exits. Ray *et al.* found that social capital was important to work retention. In particular, informal networks for childcare or reduced living costs supported some of those in low paid jobs. Others suggest that social capital is important in the workplace for task accomplishment, career advancement and social support (Bartol and Zhang, 2007).

From an employer's perspective, the level of employee turnover can have a positive or negative impact on an organisation's performance. Where it is relatively easy to find and train new employees quickly and at relatively little cost (i.e. where the labour market is loose), it can be possible to sustain high quality levels of service provision despite having a high turnover rate. By contrast, where skills are relatively scarce, where recruitment is costly or where it takes several weeks to fill a vacancy, turnover is likely to be problematic for an organisation. The characteristics of the labour market influence the response of employers, though in general employers tend to place more emphasis on labour turnover associated with higher level occupations as opposed to workers in low paid jobs.

There is limited empirical evidence available; however, what there is suggests that labour turnover affects some low paid socio-demographic groups more than others and that skills plays a role in this. For example, research in the United States (Holzer and Martinson, 2005) suggests that turnover is relatively high among groups including those who have left school early, those with weak cognitive skills, women with young children and minorities. Less skilled workers are also at risk of relatively high turnover and low retention. At the same time turnover rates are higher for lower-wage workers with part-time jobs and for those with 'non-standard shifts'.

Maintaining a stable and competitive workforce has been a key element of HRM for many employers. In a review of secondary research for the OECD, Hansson (2008) suggests that 'advanced' human resource management policies, those that stress the 'human' aspects of HRM can help to encourage retention of workers. Flexibility is a key issue where, for example, approaches to work-life balance and health may be employee or employer centred (or a combination of the two). Flexibility on behalf of employers and



employees is a key aspect of job retention and the maintenance of a productive and satisfying work-life balance particularly for some labour market groups such as those with caring responsibilities. However, flexibility for those working at the lower-end of the occupational hierarchy is more likely to be characterised by employer flexibility associated with, for example, jobs with no set hours that enables the employer to use labour according to demand rather than employee flexibility where the worker has more control over their working schedule (Tomlinson, 2006; Dean, 2007).

McQuaid *et al.* (2008) found that SMEs provide some flexibility in their working arrangements (e.g. part time hours) that are likely to improve the possibility that an individual with childcare duties can retain their employment. However as illustrated above, these employers are largely driven by employer as opposed to employee interests. There is evidence to suggest that there is widespread awareness of flexible working arrangements among both employers and employees. However, where implemented this is mostly at the instigation of the employer and there is little to suggest that recent legislation to extend the rights of employees to flexible working arrangements had affected the working culture within the SMEs participating in the research. A lack of flexibility alone does not necessarily trigger a job exit, however. In combination with other factors (e.g. growing dissatisfaction with pay and conditions or worker performance) it may result in workers leaving an employer (Ray *et al.*, 2010).

In a Learning and Skills Council (LSC, 2008) study of recruitment and training among 201 large national employers the research found that the most important elements of improving staff retention were all linked to training and development. These included increased employee engagement, improving induction, improving training for line managers and improving training and development opportunities more generally. Often the emphasis was on encouraging staff not just to upskill but to multi-skill echoing the notion of pursuing protean careers so that workers can move across as well as up the organisation. It has been argued that a strategy to increase job satisfaction and thereby reduce worker turnover should provide greater variety and quality of work and reduce the propensity to leave (McPhail and Fisher, 2008). McPhail and Fisher provide empirical evidence to support this theory based on a survey of 154,000 respondents (123,773 completed questionnaire) employed by a global hotel chain.

## 5.5 Progression

Qualitative research (Ray *et al.*, 2010) illustrates the dynamics of progression for low-skilled workers which reflects aspects of both traditional and protean careers.

- Progression within an employer: including increasing hours from part time to full time, moving to more senior positions, taking up training towards these positions or gradually increasing responsibilities.
- Progression through changing employers<sup>20</sup>: could result in better pay, fringe benefits, prospects for progression, job satisfaction or hours that suited caring arrangements.

A key measure of successful progression is the extent to which workers are able to move out of low paid jobs and realise the benefits of higher pay and earnings associated with higher level jobs. There are two opposing theories on the relationship between low pay and job mobility/progression. On the one hand changing employers is thought to increase moves out of low pay as it allows for better matching of worker skills and employer requirements. On the other hand, staying with an existing employer is seen to be beneficial if it allows low-paid, low skilled employees the chance to build up firm specific human capital and progress in the organisational hierarchy (Cuesta, 2006; Devins *et al.*, 2010). Dustmann and Pereira (2008) use data from the British Household Panel Survey for 1991-99 and the German Socio-Economic Panel for 1984-99 to investigate job mobility and estimate the returns to tenure and experience. They find that job mobility is higher in the UK than in Germany and that the returns also seem to have been substantially higher in the UK. They attribute the relatively low return in Germany with the relatively high starting wages for (particularly apprenticeship) workers in Germany. The 'quality' of the employer appears to be a critical element for those in low paid jobs who wish to progress. A common strategy for those in low paid jobs seeking progression is to acquire temporary work with a 'good employer' in order to be 'first in line' for permanent jobs that become available.

Ray *et al.* (2010) suggest that some people were able to move into better quality work by leaving a job, even if they spent some time out of work. However the study concludes that those with a break in their employment lag behind those with stable work on all measures of job quality; permanency, paid holidays, sick pay, pension, autonomy over work, perceived promotion and training opportunities and satisfaction with work-life balance. Australia has larger proportions of job-to-job transitions than many other similar countries. The majority of these transitions have beneficial outcomes for workers, with increases in wages being associated with movements between jobs (Carroll and Pöhl, 2007; Wilkins,

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<sup>20</sup> Includes self employment (which accounts for 2.2 million of the 7.5 million low earners in work prior to the recession, Resolution Foundation, 2009).

*et al.*, 2009). However, there is some evidence that job movers may have been forced to accept less desirable opportunities over recent years, particularly during the recession (Southwell, *et al.*, 2010).

Lawton (2009) in a review of the evidence suggests that on balance, the evidence appears to support the theory that moving employers is often a useful tactic for low-wage workers. However she also recognises that there is a limit to the number of moves a low wage worker can successfully make and that while job mobility may offer the best chance for upward wage mobility, it is a far from guaranteed route out of low pay.

## **5.6 'Dead end jobs'**

Although employment in low paid work can bring social, economic and psychological benefits, workers can remain trapped in what have been termed 'dead end jobs'. Opportunities for traditional career progression from low paid jobs are limited in terms of the proportion of the workforce who can hope to 'move up the career ladder' given increased competition for fewer jobs at a higher level in the organisational pyramid. The increasing use of agency workers, the flattening of organisational hierarchies (and longer working lives) all mean that the chances of hierarchical progression both within the individual firm and in many occupational groups is found to be limited (Lloyd *et al.*, 2008).

The research evidence underpinning this study would suggest that many (whether this is a large minority rather than the majority is unclear) of those working in low paid employment jobs remain 'stuck' in 'dead-end jobs'. For example, Anderson *et al.* (2005) followed adult low earners in the labour market from 1993-2001. They found that while most low earners enjoyed substantial earnings growth, no more than a quarter seemed to permanently escape their low-earnings status. Analysis by Lawton (2009) shows that of those starting out in low pay, two in five remained in low pay while fourteen per cent became unemployed or inactive. Other research identifies the lack of progression out of low paid work for specific groups within the labour market. For example Stewart (2008) showed that movement out of low pay was uncommon for lone parents over an approximate 10-year period following the birth of their youngest child, almost 80 per cent of those with an unstable work trajectory remained in low pay over the whole period compared with just under half of stable workers. Lawton (2009) suggests that administrative (and to a lesser extent personal service workers) have a much better chance of leaving low pay in comparison with those working in sales and customer service and manual occupations. Part-time work, often dominated by women, is associated with fewer chances for progression. However, McKie *et al.* (2009) found in a study of low paid women working in food retail that remaining in an entry-level job was an active choice for many. Among this group, paid work is a secondary consideration,

moulded around primary 'non-paid work' associated with the family. The authors conclude that for many, job advancement was unrealistic and the choice to remain a shop assistant was considered the best way to maximise autonomy and control and balance social and economic interests.

Anderson *et al.* (2005) suggest that while skills and individual attitudes towards work and learning may be an important determinant of progression, the characteristics of the employer matter importantly too. For example, employment in higher wage sectors of the economy (such as construction, manufacturing, transportation or health services) led to higher rates of advancement for lower earners than employment elsewhere. Size matters too, with workers in large firms (and those with low turnover rates) improving the advancement prospects for workers (Holzer and Martinson, 2005). Holzer and Martinson suggest (perhaps unsurprisingly) that job changes that move individuals from lower-wage to higher-wage employers generate not only higher earnings levels but also greater wage growth over time than job retention over long periods at lower-wage firms.

In Denmark, studies examining progression in work out of low paid jobs have pointed to a number of factors. A study by Bolvig (2005) focused on factors related to both the individual and the firm that influence mobility out of low paid employment. Firms with an over-representation of low paid workers are characterised by: the low average age of the firm itself; firms employing less than 100 employees; being part of the private sector (or retail specifically, including hotels and restaurants); experiencing low labour turnover; and having a low number of managerial positions and employees with low levels of education and work experience.

## **5.7 Approaches to intervention**

The rationale for intervention in relation to skills in the UK is based on achieving both economic and social goals which may at times be mutually reinforcing and at other times in tension. The UK adopts an approach which is largely based on voluntary (as opposed to regulatory) approaches to skills between employers, employees and their representatives. The government seeks to influence the behaviour of employers and individuals through a variety of inducements and incentives. In a recent comprehensive review of Employee Demand for Skills for the UK Commission, Johnson *et al.* (2009) identify a range of approaches to policy intervention which aim to encourage the development of skills for those seeking to gain employment and those already in work. These include financial support (e.g. grants and loans), information, advice and guidance and interventions to motivate potential learners. The study concludes that evaluation evidence generally lacks robustness and suggests that their impact is mixed.

In a review of the policy levers which stimulate employer investment in skills, Cox *et al.* (2009) identify a range of interventions which include training levies, individual rights to train, occupational licensing, tax incentives, general subsidies and the use of public procurement or quality standards. The review concludes that there is not a simple or single policy solution that will most effectively raise employer investment in skills and that there are a range of policy levers that might be effective provided the design and implementation of the policy is appropriate and suitably supported.

A more recent review identifies a range of international examples of grants and subsidies that have been used to encourage employers and workers to take part in training (McQuaid *et al.*, 2011). Some incentives, subsidies and grants have specifically been used internationally in response to the recession. Measures adopted internationally (whether as a result of the recession, unemployment or to encourage investment) include<sup>21</sup>:

- Australia: Australian Apprenticeships Incentives Program is a financial incentive for employers who take on and train Apprentices (Australian Apprenticeships, 2009).
- France: income support is available for redundant workers for one year who undertake vocational training or internships (Eurofound, 2009a).
- Belgium: in Flanders training grants are available so that training can be provided by an employer at reduced cost in order that jobseekers that do not have all the skills required can be recruited. The employee must be recruited full-time after the training (Flanders Investment and Trade, 2008). The Flemish government has also implemented a training and continuing education plan for workers, unemployed individuals, and temporarily laid-off workers in 26 sectors to increase competitiveness. In the Walloon region financial incentives are available to promote training of employees (European Employment Observatory, 2009b). The Walloon government has also extended vocational training funds to permanent employees, temporarily unemployed staff, subcontracting workers, fixed-term contract workers and temporary workers (Eurofound, 2009a).
- The Netherlands: wage cost subsidies offer an education tax reduction (WVAOW) to employers. To be eligible employees must be earning less than €20,882 per annum and attending lower to intermediate vocational education; a special programme in higher vocational education; or be paid by their employer to conduct research before they obtain their degree (LIOF, 2010). Workers who have been made redundant in one sector are offered the opportunity to retrain in another. Up to €2,500 is available to cover half the retraining costs (European Employment Observatory, 2009b).

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<sup>21</sup> See McQuaid *et al.*, (2011) for further details.

- Ireland: in higher and further education additional places have been created or set aside for unemployed people (European Employment Observatory, 2009b).
- Cyprus: the expenses of staff training in companies facing difficulties as a result of the recession are being covered by the Single-Enterprise Initial and Continuing Vocational Training Programme (Eurofound, 2009a).
- Czech Republic: the ESF is funding the 'Extend your knowledge' and 'Training is a chance' programmes and also compensating employees for their time (Eurofound, 2009a).

The evidence suggests that policy responses are wide and varied and often provides an insight into process rather than impact (see McQuaid *et al.*, 2011 for further details). Financial support has been given by EU states so that training is a bridge for employers and employees (European Employment Observatory, 2009a). However the evidence suggests that financial support for employers and individuals can affect attitudes to learning as illustrated in the evaluation of the UK Adult Learning Grant which reported that 36 per cent of Wave 1 recipients said that the grant was very important in shaping their decision to study full time (Magadi *et al.*, 2006). Many would have dropped out of their course had they not been receiving an Adult Learning Grant (Pound *et al.*, 2006).

## **5.8 Factors influencing sustained progression**

A range of supply and demand side factors influence the opportunities for sustained progression for those in low paid work. The human resource development (HRD) or talent management policies and practices of nations, sectors, localities and individual employers have a major impact on the nature and extent of skills acquisition activity at the micro level of the organisation and at sectoral and spatial levels. How employers select, recruit, retain and develop their employees has a fundamental impact on the opportunities for the development of employability skills and progression in the workplace.

The focus of this study has an emphasis on the upskilling of workers to support sustained progression in the labour market. The literature review suggests five key factors that are central to supporting skills related progression from low skilled, low paid jobs:

- availability of quality jobs;
- self-efficacy and skills utilisation;
- career development;
- training and development;
- progression pathways.

### 5.8.1 The availability of quality jobs

The state of the economy influences the opportunities for progression for those in work. Progression is largely vacancy-driven by the quantity and quality of the jobs available in the overall labour market. Economic conditions also influence people's attitudes toward mobility and their perceptions of opportunities to progress. The current precarious economic environment has an adverse effect on the opportunities for progression as firms seek to downsize and cut costs. The weak economy makes workers more risk-averse and unwilling to leave whatever jobs they do have, even if those jobs are unsatisfying. The labour market becomes more competitive as the number of people looking for work increases and job vacancies decrease. However as the economy emerges from the recession, firms are more likely to expand and create more internal and external job opportunities. It is the quality of these jobs (as well as the quantity) that leads to opening up opportunities for progression for those in low paid work.

In general jobs are ranked according to pay levels with higher quality jobs seen to be those that result in the highest earnings and remuneration packages (including pensions, holidays, security). Progression in these terms is relatively tangible in the form of increases in wages or salary. However, another indicator of job quality uses assessments of workers' job satisfaction and this is important for both productivity and quality of life more generally.

The general view of low paid employment is that it offers low quality work. It is viewed as highly repetitive, offers less pleasant working conditions with limited discretion and intrinsic interest, provides few incentives for further education and training and few real opportunities for progression. In this environment, those doing such work often see little need for training since it is outside their experience, their employer does not require higher level skills and the opportunities to progress are limited (Lloyd *et al.*, 2008; Lawton 2009). By way of contrast, higher status and higher paid jobs often require substantial education and training to enter into and progress. The jobs are usually more intrinsically interesting, provide opportunities to develop and have a high social status. They often demand that employees undertake continuing professional development and training in order to remain employed and progress within the profession or organisation.

However, the evidence associated with the existence and impact on workers of 'good' and 'bad' jobs is not as clear-cut as one might expect. As previously noted, the size of the workplace can have a material impact on retention and while physical conditions and remuneration benefits may be inferior to those experienced by many working in larger firms (employing over 200 people), workers' self-reporting of job quality is highest in smaller enterprises and decreases as firm size increases (Storey *et al.*, 2010).

In the case of job satisfaction, a measure increasingly used as a key indicator of performance and job quality, the evidence is also mixed. Bivariate analysis using the British Household Panel Survey 1991-1997 found that overall job satisfaction of low paid workers was higher than that of higher paid workers and while for higher paid workers higher earnings raised job satisfaction this was not the case for lower paid workers (Leontaridi *et al.*, 2005). Jones and Sloane (2007) use multiple regression to analyse six waves of the Welsh boosts to the British Household Panel Survey to explain the determinants of overall job satisfaction for low paid and higher paid workers. They find that low paid workers in Wales (women in particular) are generally satisfied in their work despite low pay. These findings are not however replicated elsewhere. For example Vieira *et al.* (2005) using the European Community Household Panel for Portugal (1997-1999) find that low paid workers report a lower level of job satisfaction when compared to their higher paid counterparts.

The evidence suggests that the link between level of pay and job quality (in terms of job satisfaction) is mixed. However it would seem that pay plays a small part in determining workers' overall job satisfaction and leads Jones and Sloane (2007) to conclude that the claim that low paid jobs are low quality (at least in the sense of providing job satisfaction) has no basis (as far as Wales is concerned). Their analysis suggests that workers in these types of jobs obtain compensating differences in the form of non-pecuniary (e.g. work life balance) benefits. However, interpreting these findings associated with job satisfaction needs to be undertaken with care given the coping strategies adopted by those working in low paid employment to deal with a sense of alienation which may otherwise result from this work (McDowell, 2002). Allan *et al.* (2006) found an ambiguous pattern of work satisfaction amongst 256 workers in the fast food sector where the problems of employment conditions (sending people home without pay if there was a lack of demand, offering less work to people as they got older) resulted in negative perceptions but the level of responsibility and opportunity to develop valuable career skills and social contacts were valued. On balance it would appear that even the lowest skilled work can in the right circumstances offer individuals benefits in terms of self-sufficiency and dignity at work and the opportunity to develop a range of competencies such as reliability and communication skills (Newman, 1999). For example recent qualitative longitudinal research (Quinn *et al.*, 2008) with 114 young people who were 'in jobs without training' suggests that we need to re-evaluate the conventional view of 'dead end jobs'. Quinn *et al.* found that at the time of the follow up interview, four in 10 of the research participants had become involved in training (not necessarily with the same employer). They also found that many young people felt that their time in the workplace had provided useful and credible skills however a reluctance to leave their home area limited the opportunities for progression for many.



The nature of the learning environment at work is clearly a key determinant of skills development in the workplace. Fuller and Unwin (2008) suggest that workers at any level of an organisation can develop their skills if they get to be involved in more challenging work. They highlight how work activities can be categorised as more or less 'restrictive' or 'expansive' and the skills profiles of similarly skilled workers can start to diverge in a short time depending on the type of activities with which they engage. Realising opportunities to learn and progress depends partly on the nature of the work environment (with expansive environments offering the greatest opportunity and restrictive the least) and partly upon the individual. Some employers may take steps to open doors to provide opportunities for those in lower paid occupations to access a wider work environment through, for example, job rotation, secondment, special projects or worker representation while other employers will not. The success of this approach is often dependent upon worker engagement however not all workers in low paid jobs will engage with this development agenda (Bimrose and Brown, 2009). Ray *et al.* (2010) also suggest that there are workers who are unable or unwilling to engage with the agenda of improving their income through progressing at work. Some express fatalism about their prospects and combined with a pride in their ability to 'get by' on a low income are unable to envision themselves in any other type of work. Some people aspire to improve income but are ambivalent about training or taking on more responsibility at work. Others make conscious trade-offs between improving their income and important priorities like family, leisure time and staying in a job they enjoyed.

### **5.8.2 Self-efficacy and skills utilisation**

Self-efficacy, a worker's confidence and ability to successfully perform a specific task within a given context is a key determinant of sustained employment and progression. It is also linked with employability and productivity, important considerations for both workers and employers. High performance in the workplace breeds confidence and it has been shown that individuals with high levels of self-efficacy and performance in the job tend to set higher career goals and put more effort into pursuing career strategies that lead to the achievement of these goals (Bandura, 1982). In the case of those in temporary employment employers may reward high levels of performance at work with improved terms and conditions (Nunn, 2008).

The support and active involvement of line managers is critical for retention and the development of workers at all levels. A CIPD survey of learning and development professionals has repeatedly demonstrated the importance of line managers confirming increasing line manager involvement in learning and development and indicating almost universal support for the view that line managers are important in supporting improved performance, learning and development (CIPD, 2007). Line managers have an important

role to play in identifying what qualities and attributes make the difference between competent and excellent performance and any variance between reality and expectation. They are involved in the recruitment process and in reviewing performance and identifying learning and development needs.

This major role means that they can be both barriers and enablers of skills development. Eraut and Hirsch (2007) argue that managers need to understand that providing an appropriate level of challenge is important for developing confidence and job performance and that their support and feedback is critically important for workplace learning (and commitment to learn). Line managers are also central to retention through their role in wider employability issues such as health and well-being at work, supporting people with health conditions to help them to carry on with their work or adjusting employment conditions where necessary (Black, 2008).

The issue of skills utilisation has shifted the supply-side emphasis of policy towards the demand-side (particularly in Scotland). It has always been a central concern of employers seeking to remain competitive and from an employee's perspective having the skills to work to a high level of performance is a critical element of success in the workplace. However, there have been concerns associated with the underutilisation of skills in the workplace largely associated with the very rapid growth in the graduate share of the workforce in the UK since the late 1980s (from nine per cent in 1988 to 23 per cent in 2008) (Mason and Bishop, 2010). Nunn *et al.* (2007) suggest that university graduates are increasingly entering relatively low level jobs particularly in the service sector. Felstead *et al.* (2007) using data from the Skills Survey suggest that, within the overall workforce the proportion of workers who feel that they hold qualifications at levels above those needed to obtain or undertake their current job has increased from 29 per cent in 1986 to 40 per cent 10 years later.

Sutherland (2009) using the 2004 Workplace Employment Relations Survey (WERS) reports that slightly more than half of the workers in the WERS sample felt that their skills (rather than their qualifications) were much higher (21 per cent) or a bit higher (33 per cent) than those needed to do their present job. However, Sutherland reports that workers at the lower end of the wage distribution are slightly less likely to believe themselves over skilled for their current work than workers in most skilled positions. This might be good news in terms of skills utilisation in low paid jobs however it is not good news for those workers who are unable to develop the career assets necessary to progress in the labour market.

For the 'overqualified' in the workplace, a mismatch between existing skills and their utilisation in the workplace may be temporary until the demand side of the labour market improves or their circumstances change (e.g. caring responsibilities) and the worker is able to get a job that reflects their educational qualifications or skills levels. However, it may also be part of a longer-term situation where the worker finds themselves in lower paid occupations on a more permanent basis that can adversely affect progression in the medium to long term.

### **5.8.3 Career Development**

There is little evidence that those working in low paid employment or employers more generally view low-paid jobs as a foundation to move towards sustained progression. Nunn *et al.* (2007) and Froy (2010) reviewing the literature reach similar conclusions, namely that most of those working in low paid work appear to view the jobs as separate and impermanent rather than related steps on a career path. This draws to the fore the potential role that greater awareness of, and commitment to, the idea of 'a career' may play for those in low paid work. Research by the Chartered Institute of Personnel and Development (CIPD, 2003) based on over 700 UK-based employers provides an insight into the policy and practice of employers in relation to careers. Key headline findings associated with the surveyed organisations include:

- less than half have a formal written strategy for the career management of their employees and most of these focus on the development of senior managers and the retention of key staff;
- organisations generally advocate individual ownership of career management but agree that individuals need advice, support and training in how to manage their careers;
- practices available to 'all' employees tend to be rudimentary and linked to performance appraisal;
- less than one third of organisations offer career support to employee groups such as part time workers or older workers.

The main factors employers report as having a positive influence career progression are a combination of skills and employment related factors: they include gaining extra qualifications, undertaking work-related training, taking on extra work responsibilities and working in a number of business locations/areas.

Higher remuneration or wages is often seen as an indicator of a successful career and the development of skills is often viewed as a pre-requisite underpinning progression. There is some research evidence associated specifically with the development of skills in-

work and its effect on wages. In a recent study by Chueng and McKay (2010) using multiple data sets and longitudinal modelling to look at the relationship between undertaking training in the past and its association with increases in wages presents a complex picture. The authors suggest that while older studies found quite large effects of training on wages, more recent studies using improved methods have found no or only very small effects of training on wages. They do however identify important associations between receiving training, moving into work and retaining a job, although the study does not differentiate the benefits attributable to low paid and other workers.

The development of social capital through networks that facilitate career progression can be a critical success factor in support of sustained progression in the labour market. These networks involve relationships with actors who can facilitate career progress by giving career advice, offering mentoring and sponsorship, assisting in securing developmental projects raising visibility and engaging in advocacy for promotion (Wang, 2009). However the work environment for those working in low paid occupations may not provide the opportunity for workers to make the relevant connections and develop the career assets necessary to further their career and workers themselves may be unaware (or uninterested) in developing the necessary social capital.

While there is some evidence of the importance of various 'career development skills' to successful progression, the evidence does not relate to those in low skilled work. The evidence suggests that, for example, career commitment and career assets are key components of success for those that progress however they are bound up in social and cultural aspects of work and seldom a certified skill.

#### **5.8.4 Access to training and development**

Access to training opportunities is a key to progression from low paid work (Ray *et al.*, 2010). It provides a signal that an employer is willing to invest in the worker and that the worker is willing to engage with this agenda. Some training can be 'compulsory' (e.g. health and safety and induction) while other training can be voluntary with employers choosing to provide opportunities and workers choosing to engage with this agenda (or not as the case may be).

McQuaid *et al.* (2010b) in a comprehensive review of the factors influencing employee demand for skills suggest that a considerable body of evidence indicates that an individual's personal characteristics, background and position in the labour market (among other factors) have a significant influence on their propensity to demand skills development opportunities. However it is also important to acknowledge that individuals' demand for skills development is only one factor shaping levels of access – even where

individuals express an interest in learning new skills, barriers associated with cost, work organisation and the accessibility of provision can limit the opportunities open to them.

Employers do not support training activity equally across the workforce although the evidence is mixed and there is some evidence that this is related to the dual nature of the labour market. Opportunities for training and development are highly dependent upon whether workers find themselves in the primary or secondary sector of the dual labour market. However the question of skill development in temporary and part-time work as well as self-employment has largely been neglected in research. Munchhausen (2008) suggests that opportunities to develop skills are essentially bound up in temporary work itself i.e. learning on the job. Clearly the quality of the job therefore becomes a key determinant of the learning opportunities to be accessed. While temporary jobs may provide an opportunity to develop skills in the workplace, the restrictive nature of many lower level jobs may mean that the opportunities for learning are limited. Those in temporary employment are also far less likely to benefit from more formal training provided by employers. Those in part-time work tend to have lower average rates of participation in skills development than other socio-demographic groups in the UK (Newton *et al.*, 2006; Johnson *et al.*, 2009). Gallie and Zhou (2011) suggest that there are complex differences between part time workers. Using UK skills survey data for the 1990s and 2000s, they argue that 'marginal' part-time workers (those working less than 15 hours) are significantly less likely to have access to training (and other employment rights/benefits) compared to their half-time or reduced hours counterparts. Those working less than 10 hours per week are least likely to receive training, reflecting employers' prioritisation of skills development for those spending more time in the workplace (and therefore with more time to amortise training investments).

For those not receiving training a vicious circle arises where those who need the most training for career development receive the least training and subsequently lose their motivation as the pay and career gaps with their peer groups widen. Beyond the negative psychological effects on individual motivation, the status quo over low-skill equilibrium traps the economy in a low-wage – low-skills path (OECD, 2006a). This can be devastating for individuals, localities, employers, labour markets and entire sectors of the economy.

There is some evidence that the processes of polarisation (for instance how it varies within fast growing and declining industries) are being played out in access to training in the workforce. The type of occupational group a worker is in can have a material impact on access to training opportunities at work. According to the National Employer Skills Survey, almost 2.1 million managers receive training, more than any other occupational group. However relative to the numbers employed in each occupation, managers are

among the least likely to receive training (49 per cent), comparable to the level found amongst those employed in lower level occupations such as machine operatives and employees in elementary occupations (47 per cent) (UK Commission, 2010a). Other evidence based on surveys of individuals suggests however that low skilled workers are less likely to benefit from employer provided training in the UK (Field, 2009; Mason and Bishop, 2010) and in other countries such as Canada (Zeytinoglu *et al.*, 2008). Mason and Bishop find that those with formal qualifications remain more likely to receive training however the gap between adults with low or no qualifications and adults with high qualifications has narrowed over the last decade. Dieckhoff *et al.* (2007), using analysis of household panel survey data in the UK, Denmark, Finland, France, Ireland and Spain, identify that managers and professions are more likely to receive training than low/semi skilled workers in most countries although the gap in participation is less pronounced in the UK than in some other countries such as Spain and Ireland. On balance the evidence suggests that low skilled workers (often drawn from similar socio-economic groups most at risk of worklessness) are less likely to access training provided by employers and therefore to realise the benefits of training .

There is some evidence associated with the provision of training to other socio-economic groups (Johnson *et al.*, 2009). Evidence associated with gender suggests that women are slightly more likely than men to participate in lifelong learning (not limited to learning at work) (Aldridge and Tuckett, 2007, European Commission 2008). However some major studies have identified part-time working (where women are over-represented) as reducing opportunities for skills development (Almeida-Santos and Mumford, 2005). The evidence of the relationship between ethnicity and learning is generally limited due to a lack of survey data however the Trade Union Congress (TUC) reported in 2005 that Pakistani and Bangladeshi employees fare particularly badly in respect of receiving workplace training. Analysis of the Labour Force Survey (Autumn 2004) revealed that 39 per cent of Pakistani workers and 47 per cent of Bangladeshi workers have never been offered training. Aldridge *et al.* (2006) found that while the participation of black and minority ethnic groups as a whole is within a single percentage point of the UK average, women from specific backgrounds (e.g. Bangladeshi and Pakistani) have much lower rates of participation than all other groups. The relationship between receiving training and age is mixed although older workers appear less likely to receive training than younger workers (European Commission 2008). For example, research using the Labour Force Survey (Spring Quarters 1993-2009) reveals that training rates for workers in older age groups remain well below those for other groups in the workforce. However, the probability of receiving training for males (aged 20-24) has declined more sharply (relative to the 50-59 age group) since 2000 (Mason and Bishop, 2010).

As noted previously, size of organisation matters in terms of access to training (particularly more formal development opportunities) with those employed in small organisations employing less than 25 employees far less likely to benefit from off the job or accredited learning (Johnson and Devins, 2008). An OECD analysis of Continuing Vocational Training survey data reaffirms this finding for enterprises employing less than 50 staff (OECD, 2005). Employer investment in training activity is also influenced by the sector in which they operate. For example, training investments per trainee are relatively high in sectors such as construction, hospitality, building services and facilities management and relatively low in sectors such as logistics, textiles and transport (UK Commission, 2010a). There is clear evidence that public-sector employees have greater opportunities for training and learning than those in the private sector (Blandon *et al.*, 2009). In the review of employee demand for training Johnson *et al.* (2009) suggest that there is also considerable evidence that the presence of trade unions has a positive impact on access to skills in the workplace. There is some evidence that trade unions and trade union representatives play a key role both in addressing individual barriers and influencing employer attitudes and practices towards those with lower skills and qualification levels. Support appears to be particularly effective when it occurs at the workplace, for example through Union Learning Representatives or other learning 'champions'. This appears to be particularly beneficial where employers 'buy in' to the business case for skills development and where this is reflected in the attitudes and behaviour of line managers.

At the European level, research using the European Community Household Panel (1995-2001) suggests that on the job training and high levels of general education reduce the risk of being in low pay and increase the probability of escaping from low paid to better paid jobs (Cuesta and Salverda, 2009). Although this finding resonates with the evidence in the UK, the importance of on the job training and tertiary training in different countries is mixed. Cuesta and Salverda found that on the job training was relatively more important for workers in Italy and Spain while tertiary education was more important for reducing the risk of being in low pay in Denmark and the Netherlands. Longitudinal data for 1999 to 2005 from the Italian regions shows that the monthly wage increase for an additional week of continuing vocational training are is 3.5 to 4.4 per cent; however, this declines over time, equating to 0.86 percent after 10 years (Brunello *et al.*, 2010).

Pavlopoulos *et al.* (2009) investigate the effect of training on low-pay in the UK and the Netherlands using a random-effects multinomial logit model and find that although the countries have very different training systems, training increases the likelihood of moving from low pay to high pay and reduces the likelihood of transition from high pay to low pay. In the UK however they find that work-related or firm specific training has higher returns for intermediate and higher educated workers. No effect of training is found for low-

educated workers. The authors conclude that the lower skilled seem to gain less than the higher skilled from firms' investments in skills in the UK. A recently published study (Hendra *et al.*, 2011) suggests that it is too early (two years after engagement) to assess whether ERAD's effects on increasing the take up of training translates into sustainable progression. The evaluation results are mixed yet they point to the positive association between the pursuit of a trade specific qualification and an increase in earnings. The study does, however, highlight that even substantial increases in training do not necessarily lead to short-term advancement.

Despite the equivocal evidence associated with the returns to training for lower level qualifications, research suggests that being in a workplace that offers in-work training is a key to progression from low paid work (Ray *et al.*, 2010). However, access to training opportunities are uneven among the workforce with those in low paid jobs, particularly temporary and part-time employment, often least likely to have the opportunity to develop their skills.

#### **5.8.5 Progression pathways**

The formation and communication of progression pathways are seen to be a key factor in the development of skills and sustained progression in work. Ray *et al.* (2010) found that some agencies and employers have a better record than others in developing 'stepping stones' towards sustainable employment. However more emphasis needs to be placed on the development of career ladders or pathways that allow people to progress out of low-paid work in a supported and incremental way.

Welfare states can be characterised by the way they achieve high or low levels of job mobility (exit) and high or low levels of work and income security. A high level of employability can coincide with a high level of job mobility and yet a high level of security of work and income (maintaining income and/or short spells without work). With regards to concerns to the 'stepping stone' or segmentation function of temporary employment in general, European comparative studies show that Denmark and the UK are usually among the countries with relatively high (short-term) upward mobility into permanent jobs, whereas in Spain temporary workers experience a very high risk of exiting employment. Germany takes a hybrid position between these extremes (Leschke, 2009). A longer-term perspective (over a five year period) reveals considerable downward transition from temporary employment to unemployment or activity in all three countries (European Commission, 2003, p.133).



Building clearer pathways which support lateral (between and across sectors) and vertical (where workers move towards higher level jobs) progression can attract new recruits into work and help retain experienced workers. Pathways can be viewed as a clear articulation of the learning and employment routes to enable people to move within and between (often related) sectors. The availability of jobs is a key element of a pathway that provides opportunities for progression and the entry-level qualification requirements may provide both a barrier to entry and a motivation to learn for workers.

Considerable work has been undertaken in the UK to map the skills requirements (qualifications) of occupations within key sectors. Each Sector Skills Council (SSC) has published a sector qualifications strategy which seeks to reflect the needs of employers and workers and is designed to influence the development and implementation of plans for qualifications reform for the sector. The strategies map out occupational pathways and 'typical progression routes' in a variety of ways and connect these with the skills and qualifications typically required to work in specific occupations. The skills escalator applied to the National Health Service (Table 5.1) provides an illustration of an approach to support progression in an expansive learning environment (Cox, 2007).

**Table 5.1 National Health Service Skills Escalator**

<b>Learner category</b>	<b>Learning Opportunities</b>
Socially excluded individuals	6 month pre-employment orientation programmes involving employability and essential skills training
The unemployed Jobs requiring few skills and less experience	6 month placements in 'starter' jobs
Skilled roles	NVQs 3-5, HNC/HND, Modern Apprenticeships, Foundation Degrees, learning needs identified through appraisal, and PDP
Qualified professional roles	Postgraduate specialist training through diplomas or masters, mentoring, secondments, learning needs identified through appraisal, and PDP
More advanced skills and roles	As above, role development encouraged in line with service priorities/personal career choices
'Consultant' roles	Flexible 'portfolio careers' informed by robust appraisal, CPD and PDP

*Source: Working Together, Learning Together (adapted from Department of Health, 2001: 18) cited in Cox (2007).*

Cox explores the role of National Vocational Qualifications (NVQs) and identifies the successful role that they play in acting as a 'throughput' qualification in the escalator, providing access to higher level roles and qualifications. While establishing a progression route offers opportunities for progression, research suggests that a number of personal or individual factors inhibit progress in practice. McBride *et al's* (2006) evaluation of the NHS skills escalator identifies a number of barriers encountered by lower skilled NHS staff, including a lack of confidence in their ability to learn, embarrassment associated with low levels of literacy, apathy and a questioning of the benefits of skills development, particularly among older staff.

Progression pathways are being established in localities to encourage entry into and progression in, for example, specific sectors. However, there remains a tendency for economic development at the local level to focus on physical development with the 'people element' marginalised by existing practice (Garmise, 2006). When local planners sit down and think about inward investment, attracting new businesses or enabling businesses to grow, they often do not take into account the implications of these decisions on the workforce. An illustration of this is the persistence of inter and intra generational cycle of deprivation in many thriving cities and the failure to connect some people and groups of people with the new jobs that have been created in the local economy let alone the opportunities for progression that may exist. In the US, some cities and states have been at the forefront of developing career ladders which seek to integrate learning.

#### **Example: local initiatives in the USA**

**The Kentucky Careers Pathway Initiative:** community colleges and local employers collaboratively developed career ladders in sectors including health, manufacturing and construction. The pathways set out a sequence of connected training and job opportunities and included multiple entry points and 'remedial bridges' to enable workers lacking formal education to enrol in training courses beyond basic skills. Early evaluation of the initiative emphasised the need to strike a balance between worker and employer needs and the importance of flexible modular study for low-wage workers.

**The Massachusetts Extended Care Career Ladder Initiative:** designed to contribute to state-wide efforts to increase the quality of private long term care. The programme focused on entry-level jobs and particularly low-wage Certified Nursing Assistance, helping them to move through a series of stages and eventually into fully fledged nursing roles. Workers automatically received a set wage increase when they moved to the next rung of the ladder. Evaluations showed that the majority of low wage workers received a wage increase, vacancy rates fell and retention increased. It was also found that initiatives should focus on creating rungs at the bottom first.

**The Career Pathways Initiative run in Illinois, Washington state and Arkansas:** designed to serve as a primary means of meeting low-skilled individuals' training needs by systematically linking disparate education and training systems using a designated community college as the nexus for partnerships and programme delivery. The targeted beneficiaries were low-skilled migrants with English language needs, those unemployed, and those in receipt of Temporary Assistance for Needy Families benefits. A contextualised curriculum emphasising occupational content integrated with ELL (English Language Literacy), ABE (Adult Basic Education) and developmental/remedial education and a modularised curriculum provided beneficiaries with multiple entry and exit options. Certificates and degrees were available at various exit points, depending on how the curriculum was aligned with the occupational ladder. Although the sites worked with different low-skilled beneficiaries, each programme offered a number of similar strategies, including job readiness training. Drawing on their partnerships with local employers, each pathway programme worked with firms in determining curriculum content. The programmes offered flexible scheduling, recognising that beneficiaries had competing responsibilities. Cohort groups, 'learning communities', and other groupings of beneficiaries were seen as a way of encouraging support among and between them. Each programme also operated with multiple partners: employers, community-based organisations, chambers of commerce, states agencies, industry groups and others.

At the micro level of the organisation, the formulation of internal progression pathways is an important development that supports recruitment, retention and succession planning in organisations. Succession planning is the process by which organisations identify one or more successors for jobs (or groups of similar key jobs) and develop activities to ensure that these workers have the capabilities required to succeed in these 'new' jobs. It reflects a proactive organisational response to progression however evidence of practice in the economy is scarce. Recent research based on a survey of 110 employers covering a combined workforce of just over 430,000 employees found that only 28 per cent of respondents had a formal succession planning process in place while 28 per cent used informal methods and 44 per cent had no provision at all (Williams, 2009). Generally succession planning is used to ensure that key technical or leadership positions can be filled and may include graduate or high flyer programmes as opposed to supporting the progression of those in low paid jobs, a large proportion of whom as we have seen may get 'stuck' in low paid jobs.

The LSC (2008) study of recruitment and training among large national employers provides an illustration of internal progression pathways:

**Example: internal progression pathways**

Company A (health and social care) has a joined-up career pathways programme that covers every member of staff. This aims to support staff to progress upwards through the organisation but also encourages sideways moves if this fits with the aspirations of the employee. The company provided examples of staff who had joined as care assistants, worked their way through NVQ Level 2 and Level 3 and then gone into nurse training and returned as qualified nurses. Senior care assistants who wanted to enter management could undertake Level 2 or 3 courses in Team Leading and progress through to a Level 4 in Management. Similarly, someone working in support services could eventually specialise in care or catering. A support services worker will be involved in a bit of care work and also some of the laundry, some of the cleaning and domestic things in the home. From that they can actually move across to catering and hospitality and become a chef. This patchwork approach meant that staff could 'mix and match' qualifications and move across into different job functions if the opportunity arose. One of the value-added benefits of this was that the company had 'grown' many of its own internal training and development staff, with the opportunity for people to train as assessors and internal verifiers or – in catering – to become a 'Master Chef' at Level 3+ and participate in the training of other staff (LSC, 2008, p. 26).

## **5.9 Key findings**

- Several studies suggest that a key factor which limits progression for those who gain low paid work is job retention. An appropriate mix of supply (including skills related) and demand side (including employer induction and HRD processes) intervention is required to help to overcome the barriers that those at risk of labour market disadvantage face. Employers need to assess the business case for improved retention of those in low paid jobs in economic terms and as part of their corporate social responsibility. For example, do the benefits of an effective induction process for those at risk of labour market exclusion outweigh the costs of recruitment and/or loss of productive capacity caused by labour turnover? While some employers work effectively with intermediaries such as Jobcentre Plus, local education providers and the voluntary and community sector to smooth the transition to work there remains an opportunity for those that do not to work in partnership to engage with this agenda.

- Although the UK has relatively low levels of temporary work by international standards the use of fixed-term contracts for some low paid work (e.g. in sectors such as agriculture or tourism) is a key characteristic of the UK labour market. This (along with other personal, social and institutional factors) contributes to the problem of 'cycling' between relatively short periods of work and time on benefits which in turn inhibits progression. Although a general lack of high quality longitudinal research is apparent, the available evidence suggests that initial employment retention for benefit leavers is a problem for some socio-demographic groups including those with low qualifications and lone parents who may require specific targeted interventions (e.g. English for some ethnic minority groups) to address labour market disadvantage.
- Employer HRM policies and practices can help to encourage retention through, for example, flexible approaches to work-life balance and the development of working environments where those in low paid or low skilled jobs have the opportunity to develop new skills. However, more often than not, flexibility and opportunity is driven by the needs of the employer rather than the individual, particularly for those in 'lower occupations'. There is a need to find a balance which equitably reflects the interests of both parties while taking into account interests associated with both economic performance and fairness.
- Research suggests that, over various time periods (two to 10 years), somewhere between 40 per cent and 75 per cent of workers in low pay remain in low paid work. The likelihood of seeing the emergence of a 'better job' appears to be slim for many in low paid employment however the extent to which this is an active choice by these workers is unclear and requires further investigation.
- On balance it would appear that moving employers is a useful tactic for low-wage workers to improve their earnings. However there is a limit to the number of moves a low wage worker can successfully make. Moving between employers is a far from guaranteed route out of low pay given the precarious nature of alternative low paid work, the tendency for some to remain stuck in low paid jobs and the adverse impact of a work history including frequent moves on employer selection and recruitment decisions.
- A range of supply and demand factors influence the opportunities for sustained progression for those in work. The findings of this study suggest five key factors that are central to successful progression from low paid jobs.
- Availability of jobs: progression is largely driven by the quantity and quality of jobs available in the labour market. Local economic development policies and employer growth strategies which encourage the development of more and better jobs are a key element of an environment which supports successful progression.

- Self efficacy and skills utilisation: performance in the workplace is a key factor in retention and progression at work. Success in the workplace breeds confidence and it has been shown that workers with high performance (self-efficacy) tend to progress in the labour market. Employers (particularly line managers) and intermediaries (particularly customer facing advisors) have a key role to play in fostering self-efficacy among those at risk of labour market disadvantage.
- Career development: the development of a plan to underpin career development and the support and active involvement of line managers in encouraging worker learning and development is crucial for the progression of workers at all levels. Employers and supply side intermediaries need to develop an environment in which workers can develop the career assets (e.g. confidence, skills and social networks) necessary to succeed. More emphasis needs to be placed on the development of career ladders and pathways that allow people to progress out of low paid work in a supported and incremental way.
- Access to training opportunities: despite the equivocal evidence associated with the economic returns for lower level training, the study findings overall suggest that being in a workplace that offers in-work training is a key to progression. There is a wide range of factors that inhibit demand for training and these affect some socio-economic groups including low skilled workers, older men, specific ethnic minorities (e.g. Bangladeshi and Pakistani), women in part-time employment and those on temporary contracts more than others. Demand side factors include organisational size (with employers in small organisations, in particular sectors or with no union representation less likely to provide opportunities for formal training than larger organisations). Overcoming the barriers to training faced by targeted socio-economic groups and those employers less likely to provide formal training may provide a focus for intervention.
- Progression pathways: building clearer internal labour markets and progression pathways at the local level which support lateral (between and across sectors) and vertical (where workers move towards higher levels) progression can support recruitment, retention and progression of those entering low paid work. Partnership working is crucial with, for example, Sector Skills Councils, key employers, Jobcentre Plus, Work Programme providers and Further and Higher Education providers having roles to play. The emergent Local Enterprise Partnerships will have a key role to play taking this approach forward at the local level.

## **6 Summary and implications for policy and research**

### **6.1 Introduction**

This section of the report draws on the evidence compiled during the study to discuss the role of upskilling as a lever in helping to make the transition from worklessness to sustained employment. It addresses the five research objectives underpinning the study and draws on the evidence to identify key priorities and highlight some critical success factors associated with policy intervention. The findings point to the importance of partnership working, the importance of sequential and in some instances ongoing skills provision, changing employer practices and an increased orientation towards a process which binds work and skills together as a lifelong process.

### **6.2 Quantity and quality of low paid work**

The over-riding narrative of the future of the UK economy is that increasing global competition means that sustainable future growth will require increasing innovation, higher levels of workforce skills and continuous industrial and occupational change. However an important structural problem remains in the UK founded upon a low-skill equilibrium and rigid labour market segmentation (i.e. a labour market where there may be little chance for low skilled workers to move into high skilled jobs). This inhibits the potential of the labour market to contribute to social mobility and results in income inequalities and, for some, in-work poverty. Forecasts suggest that about 20 per cent of the additional jobs created by 2020 will be low paid and that the proportion of jobs in the economy that are low paid will remain similar to that experienced today. What now appears to be accepted is that about a quarter of the jobs in the UK labour market will remain low paid and difficult to progress out of (UK Commission, 2010b).

International comparisons suggest that the proportion of low paid jobs in the UK is broadly in line with countries such as Germany and the United States, although it is much higher than countries such as Denmark. Much low paid work in the UK (e.g. hairdressing, service work, sales) involves a level of skills and/or creativity that is not recognised in terms of formal qualifications or pay rates. In some countries such as Denmark and Germany some of these occupations are more valued by society and rewarded accordingly.

The majority of low paid jobs in the UK are clustered in three sectors of the economy—: retail, health and hospitality; and, this is set to remain the case in the future. While some low paid jobs may require varying degrees of skill, the majority are classified as low skilled jobs as they require few if any entry-level qualifications. The characteristics of many of these jobs – for example: repetitive tasks, poor physical environment, low pay are seen to represent low quality work. Intuitively, one may expect higher levels of job satisfaction among workers in high paid jobs however the self reporting evidence from workers in different jobs does not always support this view with low paid workers and workers in SMEs (sometimes thought to provide low quality jobs) reporting relatively high levels of job satisfaction. These findings need interpreting with caution but the compensating differences that seem to positively influence the relatively high level of self-assessed job quality associated with low paid jobs are worthy of further consideration. They have important implications for Careers Guidance providers and relevant sector bodies (e.g. SSCs) and the benefits which may be used to ‘promote’ low paid jobs to those being encouraged to make the transition from inactivity to work in low paid jobs (i.e. the non-work and social benefits of employment that appear to be valued by those working in unfashionable and low paid sectors).

Low pay affects certain groups in society more than others. For example, young workers (below 22 years), older workers (50 yrs+), some ethnic groups (in particular Pakistani and Bangladeshi workers), women in part-time work and those with low skills. Employment contracts can be important with fixed term contracts for some low paid work (e.g. in sectors such as agriculture or tourism) a characteristic of the UK economy. Place is also important with a lack of job opportunities a key significant factor affecting the level of worklessness in a given area. Low skilled workers tend to be concentrated in ‘lower level’ occupations which are often least likely to provide an opportunity for further training and development.

The ‘workplace learning environment’ at the micro level is an important dimension of job quality and while ‘restrictive’ environments limit the opportunities to learn, ‘expansive’ environments can provide workers at any level with an opportunity to develop their skills if they get involved in more challenging work and engage with training and development opportunities offered by employers. Policy interventions which seek to influence employer approaches to work organisation and Human Resource Management such as ‘High Performance Working Practices’ and ‘Investors in People’ have a role to play here through, for example, encouraging the establishment of inclusive approaches to Human Resource Development which seek to engage all workers (and not just key workers) in training and development or the development of more expansive learning environments for those in low paid work.



Pay is often an important element of job quality and at the recent World Economic Forum at Davos (January 2011) one of the major economic challenges for policy-makers was identified as ensuring that income gaps decrease as the economy moves towards growth. One of the key policy interventions to address this and alleviate poverty for those in low paid jobs is the National Minimal Wage (NMW). While opponents argue that an increased minimum wage leads to reduced competitiveness (due to rising costs of production) and job losses as firms lay off employees whose productivity falls below the standard, advocates argue that the magnitude of any job loss is small and the gains that accrue to people who remain in work at the higher wage level will exceed any losses. The NMW has raised the real and relative pay of low wage workers and narrowed the gender-pay gap with little or no evidence of any employment effects (Metcalf, 2008).

There is evidence in the United States that a further beneficial consequence associated with the raising of wages for those in low paid work is that it leads to a firm reconsidering its approach to the organisation of work in order to increase efficiency and achieve the productivity required to sustain the higher wage level (Osterman, 2008). In this way the NMW may in part help to address the low skill equilibrium and improve some dimensions of job quality. The evidence base is in need of some development although there is evidence of this in the United States (Almeida-Santos and Mumford, 2005) with some employers seeking to improve the productivity of low wage workers through higher levels of training.

The implication of our analysis is that job polarisation (for instance how it varies within fast growing and declining industries) in the UK labour market risk trapping lower skilled people in low paid jobs that are less likely to offer opportunities for progression. The evidence of low pay in the economy reveals a need for a continuing emphasis on promoting opportunities for progression and training for those in lower skilled, entry-level positions. Those that enter and remain in jobs (or sectors) which offer few development opportunities are unlikely to realise their potential to progress in the labour market. This issue is of particular importance given that many people leaving benefits take their first step on the 'jobs ladder' by accepting lower skilled, entry level work. The challenge is to consider how best to promote training, development and progression opportunities for those who are entering or are already employed in lower skilled positions. This presents opportunities for a range of stakeholders including for example government departments, employers, Local Enterprise Partnerships, the Sector Skills Councils and unions.

### **6.3 Skills and the transition from benefits into low paid work**

The evidence suggests that while the development of skills clearly plays a role in the transition from benefits to work, it is often one part of a complex mix of factors (e.g. health, caring responsibilities, social networks, transport) and is generally a relatively small component of Welfare to Work (including Work Programme) intervention in the UK's work-first model.

Notwithstanding the evidence which suggests that participation in training in the UK for different labour market groups is considerably higher than most other countries, there remain concerns voiced by a range of stakeholders on the supply and demand side of the labour market associated with the skills of those seeking to move from benefits into employment. The evidence suggests that employment prospects are severely restricted for those leaving education with no qualifications or limited employability or basic skills. There is a great deal of evidence which suggests that many workless groups face significant problems associated with their employability which relate to low confidence, a lack of self-management (e.g. reliability, punctuality etc), low motivation (e.g. self-efficacy) and basic (e.g. literacy and numeracy) skills. Policy intervention, through for example adult education in later life, can help to address the problem (by laying the foundations for further learning) however the economic benefits realised are dependent upon the type of training undertaken and often limited for the individual, employers and the public purse, particularly in the short-term. The effective connection and coordination of adult skills provision pre-employment training and quality labour market intelligence (via careers provision) is required to ensure that those on benefits realise the potential of public sector investment in this arena.

Skills deficits clearly constitute a barrier to employment, and this combined with unemployment and inactivity or poor quality jobs with few opportunities to learn, damage workers ability to update their skills and maintain their employability. Skills needs include:

- Basic numeracy and literacy skills which are commonly demanded by employers and which also offer long-term benefits to individuals through increasing their disposition to further learning and personal development.
- Employability skills (often referred to as 'generic' or 'soft' skills) that include sets of personal attributes and behaviours which are sought by many employers recruiting to low paid positions. There is evidence to suggest that a deficit of employability skills can determine individual life chances as well as be a barrier to employment.
- Technical skills and/or qualifications which have a positive effect on labour market outcomes (employment and earnings). Apprenticeships (and higher level skills) are identified as particularly effective in terms of positive labour market outcomes.

Interventions to support individuals in the transition to work will need to consider different skills needs (e.g. basic, employability, technical) in the round and ensure that skills deficits are filled in the right sequence to meet the specific needs of individuals and employers. However skills interventions for the most disadvantaged will often need to be accompanied by other services (e.g. childcare, health, employer engagement) in order to overcome the multiple barriers to employment that some face and intermediaries will need to work in partnership to deliver services effectively.

Because skills deficits are often themselves related to other factors (e.g. poor motivation and disaffection are both a product and cause of low skills), successful interventions have to address these issues as well as the skills deficit. Such interventions also have to be developed in relation to a wider range of active measures designed to overcome a range of individual and institutional barriers to employment. A **career development framework** (or Personal Development Plan) which takes into account a range of factors could provide the foundation for progression in skills and employment. This approach has been identified as a critical success factor underpinning many successful careers and could provide the basis for progression through the labour market.

The UK spends relatively little on Labour Market Policy, with the Czech Republic, USA, Korea and Mexico the only OECD countries that spend a smaller share of their GDP on labour market policies. Yet, the proportion of UK spending that is focussed on active measures is relatively high. Nevertheless, training is usually a much bigger part of intervention in other countries. Among the most consistent findings emerging from the case studies and the evidence more generally is that training interventions deliver positive impacts, but that these tend to be more apparent over the long-term. 'Work first' type interventions, such as job search support and more intensive sanctions regimes, tend to produce stronger immediate job entry effects whereas training or human capital interventions tend to be more effective in terms of sustained employment and the reduction of the low pay no pay cycle. These mixed findings provide a challenge for those seeking to allocate scarce resources to welfare to work and skills interventions

## 6.4 Types of training

Despite considerable evidence associated with assessments of the effectiveness and impact of welfare to work interventions, there remains a lack of robust evidence associated with the types of training that are most successful in helping workless people to enter employment. This is due in substantial part to the different circumstances facing workless individuals (including health and caring responsibilities), provision which is often multifaceted (so it is difficult to distinguish the role of individual elements, for example information advice and guidance) and varying demand-side characteristics which affect the quantity and quality of jobs available.

The evidence suggests that different socio-economic groups (including young people, lone parents, older people and members of some ethnic minority groups) in different locations have different needs which are best dealt with through local solutions. Holistic, personalised services tend to be effective but relatively costly, and different approaches are required for different groups. It is important to note that each individual will have a different combination of needs and barriers to work; and that employers' will vary in their skill demands and willingness to engage with workless groups.

The study provides an insight into the critical success factors to support the transition from benefits into work using a skills related intervention:

- Skills interventions for those on benefits will need to be highly individualised, especially in relation to scheduling (basic skills before employability and technical skills) and relevance to opportunities existing in the labour market.
- Skills interventions need to be part of a holistic approach. Individual skills interventions may only move an individual partway towards employment and further coordinated and cumulative support (skills based and in other forms e.g. transport, caring responsibilities or health) may be required.

Many personal, institutional and structural factors impact on the transition from benefits to employment. As suggested in the previous section of the report there is no 'magic bullet' however the evidence does provide an indication of what might work in terms of welfare to work and skills interventions. These include:

- matching training provision to learner needs and work-based contexts / employer demand and the avoidance of school like settings and methods (UK Commission, 2010f);

- the use of training which provides the basis for employment *and* learning progression (including interventions to promote aspiration, positive behaviours and self-confidence) and the appropriate scheduling of skills based interventions where required (e.g. to develop the basic skills prior to apprenticeship training);
- intensive information, advice and guidance which raises aspiration and provides a framework for progression in learning and employment.

There is strong evidence that information advice and guidance supports participation in learning, the development of key employability skills and educational attainment. However the role of IAG in supporting transition into employment is less clear and illustrative of the need to align the skills, employment and careers systems to support the transition from worklessness to quality jobs with opportunities for progression.

Considerations of the demand-side have often been marginalised in discourse surrounding the transition from benefits to employment. However employers provide the job and learning opportunities for those on benefits and the process of recruitment to low paid employment is a critical consideration. There are a variety of barriers to making the transition from benefits to work and resolving these implies not only interventions to help individual job seekers but also to improve employer recruitment and management practices, for example in relation to access through social networks and the development of genuinely accessible and fair organisational cultures. There is however little evidence associated with 'what works' in relation to employers of different sizes or operating in different sectors and the role that they play in the design and delivery of support for disadvantaged groups.

## **6.5 Sustained employment**

Several studies suggest that a key factor which limits progression for those who gain low paid work is job retention. Some of the barriers preventing retention mirror those that act as barriers to work in the first place such as lack of poor quality services (e.g. childcare, health) and employer human resource practices. Relatively high rates of labour turnover are a characteristic of some sectors (often those with a relatively high proportion of low paid workers) and appear to affect some groups (e.g. those with low qualifications, women with caring responsibilities and some ethnic minorities) more than others. On the demand side the characteristics of employment can be important with research suggesting that those in part-time jobs or working in non-standard (e.g. temporary) contracts are more likely to experience greater turnover rates which can hamper the opportunity for progression. Employers need to assess the business case for improved retention of those in low paid jobs in economic terms and as part of their corporate social responsibility.

Policy has recognised the challenges associated with retention in the past and sought to address it through supply side measures such as the New Deals, Skills for Jobs, and Pathways to Work. Some of the interventions have included 'post-employment support' for those entering employment however available evaluation evidence suggests that this has proved to be difficult to implement successfully. Successive influential reviews (e.g. Leitch, 2006 and Harker, 2007) have concluded that there is a need for an integrated employment and skills system to ensure that people receive the help they need to get on in work although this appears to have been slow to materialise at the national level (Association of Learning Providers, 2010). With the increase in unemployment and the ready availability of a pool of labour to fill low paid/low skilled jobs, incentives for employers to invest in retention and the reduction of labour turnover may have been reduced.

The 'low pay no pay cycle' is a term that captures the policy challenge presented by those that move between low paid work and benefits on a recurrent basis. Although a general lack of high quality longitudinal research is apparent, the available evidence suggests that initial employment retention for benefit leavers is a problem for some socio-demographic groups, those with low qualifications and lone parents for example. Research suggests that this occurs for a sizeable minority, for example; one in five JSA claimants reclaim benefit after 13 weeks and two in five reclaim within six months.

The study uncovered little empirical research to identify why people leave their jobs and return to benefits. Qualitative research identifies negative experiences in the work environment or changes to personal circumstances that contribute to leaving and returning to benefits. Intermittent low paid work is tolerated or even chosen by some to fit around personal preferences (e.g. work-life balance) or circumstances (e.g. caring responsibilities). The use of temporary and short-term contracts is identified as one of the main reasons for leaving work and returning to benefits. What is clear however is that intermittent employment can have a harmful effect on labour market progression and earnings over the lifetime. Employer practices can have a key role to play in terms of the recruitment and retention of low paid or low skilled workers. While some employers recognise the value of supporting retention for those making the transition off benefits into work many employers do not.

Relatively high rates of labour turnover (particularly related to low qualified or low paid workers) are a characteristic of some sectors and occupations and an employer's approach to Human Resources (HR) can adversely impact on the retention and progression of workers. This has led some to suggest that employer HR policies that stress the 'human' aspects of HRM may help encourage the retention of workers at risk of cycling. Flexibility is a key issue where, for example, approaches to work-life balance

and health may be employee or employer centred (or a combination of the two). However flexibility for those working at the lower-end of the occupational hierarchy is more likely to be characterised by the employer rather than employee flexibility.

Research with workers in low paid jobs identifies training as a key factor in progression. However, access to training opportunities in work is uneven with some groups far less likely to undertake employer supported training than others. For example, the type of contract a worker has influences attitudes and participation in training with non-permanent contract holders, part-time workers and temporary agency workers receiving less training and skills development than those who are on fixed-term contracts. In the UK some socio-economic groups are far less likely than others to undertake training at work and these include low skilled workers, older men, people in specific ethnic minority groups (e.g. Bangladeshi and Pakistani) and women in part-time employment.

The evidence highlights a number of barriers to the take-up of skills development that are experienced by different groups of people. These include financial constraints, limited access to information, advice or/and guidance; negative influence from family or peers and in some cases negative early experiences of education or training. Other factors affecting participation in training include career orientation and the attitudes and practices of employers which can play an important role in stimulating or inhibiting skills development in work.

Unionised workplaces appear to be an important factor in access to training opportunities and the government recognises the key role that trade unions have in supporting the development of high performance working practices and playing a more active role in the workplace to access careers information and advice. Union Learning Representatives (as well as Community Learning Champions) are seen by the government to have a role to play in supporting learning and the government has a commitment to working with 'other relevant bodies' to explore how the development of workplace learning champions in non-unionised workplaces can be promoted. Both unionised and non-unionised workplaces will need to engage with the agenda if those in low paid and low skilled jobs are to access training and development opportunities.

The support and active involvement of line managers is critical for the retention and development of workers at all levels. The development of management skills has been of policy concern for several years and in common with a recent review of health in the workplace (Black, 2008), the evidence underpinning this study suggests that line managers may need further training so that they are equipped to place the development of the individual at the forefront of their approach. The extent to which this is paid for by the employer or the state (or a combination) may be a contested issue. Some employers recognise the value of developing their line managers in this respect and take appropriate

action to build line manager capacity. Employer representative bodies, professional bodies such as the CIPD and employers themselves need to champion and support the development of the skills of line managers to implement a 'people centred' approach to the development of workers in low paid low skilled jobs. Policy intervention (based on information and guidance identifying the benefits attributable to such an approach rather than regulation) may be necessary to raise awareness of the benefits to the firm and encourage employers who do not choose to develop the management infrastructure and capacity necessary to encourage workers in low paid jobs to develop their skills.

In an environment where the individual and the firm are increasingly expected to make a contribution to their own skills development, the extent to which either or both choose to spend their limited financial resources on learning is open to debate. The argument for skills development is heavily influenced by the economic returns to skills however there is little evidence associated with the returns from particular courses of study for low paid workers. This study suggests an increasingly complex relationship between the economic returns to education and the level of qualification attained. The evidence suggests some polarisation is apparent with considerable returns associated with degree level qualifications (although this varies substantially by degree) and zero or negative returns to some low level qualifications for specific groups and sectors. The most recent research suggests that the wage effects of 'low level' training for those in low paid jobs is relatively small or non-existent although it is becoming more generally recognised that learners and employers view the psychological and social benefits of training in the workplace at least as important as the measurable economic benefits. These findings may be at odds with prevailing policy assumptions but they are consistent with recent findings from studies in the US and the UK where researchers expected that employers and employees would be financially motivated but were not (Hollenbeck and Timmeney, 2008, Wolf *et al.*, 2010). This will clearly impact on the financial incentive to learn for those with low qualifications or in low paid jobs and should inform the development of marketing and promotion approaches and delivery which seeks to engage people with low skills in basic skills training.

The evidence in this study suggests that interventions based on encouraging demand for training by providing more information about provision and choice of course may struggle to benefit those with low skills. There is also evidence which suggests that those with low skills may be least likely to take advantage of skills development initiatives due to, for example, their lack of understanding of the mechanisms involved and their already precarious financial position. Further incentives, clear promotion of the benefits of these initiatives and further support may be required if these policies are going to benefit the low skilled and low paid.



## 6.6 Progression

Labour market progression is identified as a key factor in supporting social mobility and the alleviation of poverty. However progression is largely driven by the quality and quantity of jobs available in the labour market and economic development policies and employer growth strategies which encourage the development of more and higher quality jobs are a key element of an environment which supports progression.

However the evidence suggests that too few people in low paid jobs are able to develop a career which involves progression to better paid jobs. The evidence suggests that somewhere between 40-75 per cent of workers remain 'stuck' in 'dead-end' jobs. However the extent to which workers remain in low paid work due to an active choice or because of a lack of skills or job opportunities is unclear and an area where further investigation is required. Recent Welfare to Work policy increasingly emphasises the desire to support the transition from benefits into 'jobs with training' which are more likely to provide an opportunity for sustained employment. This study found little evidence that those working in low paid employment, or employers more generally, view low-paid jobs as a foundation to move towards sustained progression. However the study suggests that some partnerships and employers have a better record than others in developing stepping stones towards sustainable employment and that guidance on job selection is an essential element of the support process. Some employers in sectors where low pay is a characteristic of work (for example the supermarket chain Morrisons, fast food corporation McDonalds or the National Health Service) are developing and promoting HRM practices which support progression at work. However employers need to place more emphasis on the development of internal career ladders that allow people to progress out of low-paid work in a supported and incremental way at the micro level if the potential of the labour market to support social mobility is to be realised.

At the local economy level, there is an opportunity to develop progression pathways to further local economic development, regeneration and inclusion agendas while at the same time supporting the transition from benefits into work with opportunities for progression. Local Authorities (through, for example, their economic development, regeneration and planning departments), Jobcentre Plus, FE Colleges and private sector training providers, the Voluntary and Community Sector, Sector Skills Councils and employers need to work together (as appropriate) to develop progression routes that develop job opportunities for their local communities.

There are a range of employment opportunities attached to many public and private sector investments associated with economic development and regeneration and there is an opportunity for Local Enterprise Partnerships to lead the way in the development of employment and progression pathways. There remains a need to join up welfare to work,

skills and economic development to unlock the potential of local people and connect them to jobs in the local economy. Innovative approaches are required to develop progression routes in the local economy and as illustrated in section 5.8.5 of this report several cities and states in the USA have pursued this approach with varying degrees of success. The ongoing DWP Worklessness Co-design project outlines the Department's approach to localism which balances the national benefit system with individualised support shaped 'around individuals wherever they live'. This approach is proposing to utilise the knowledge of front line staff and local partnerships via Work Programme providers, who can pool resources at a local level. It remains to be seen whether the Work Programme, using a system of regionally let contracts to private sector organisations, and third sector sub contractors, provides the financial flexibility to ensure support is truly localised or whether, in reality, generic support is actually offered that stifles the development of innovative approaches.

## **6.7 Towards the Work Programme**

The White Paper 'Universal Credit: Welfare that Works' paved the way for welfare reform (Department for Work and Pensions, 2010). Jobcentre Plus advisers now have the flexibility to offer support from a menu of interventions, which include skills provision and job search support; all with the aim to get Britain working.

Available support measures include:

- One-to-one, group and online provision to support job search and career choices
- Basic skills support, occupational training and sector-based work academies to enhance an individual's employability skills.
- Mentors and Work Clubs as a way of encouraging people to share skills and experience.
- Work Together as a way of developing skills through volunteering.
- Work Experience which will provide young people with the opportunity to gain an insight into the world of work, including internships, work experience, mandatory work activity and apprenticeships.
- New Enterprise Allowance, Enterprise Clubs and self-employment guidance to help unemployed people who want to start their own business.
- Flexible and discretionary funds to support disadvantaged individuals and families.

The Sector-based Work Academies will offer sector-specific pre-employment training and work placements to support the transition from unemployment into work. The introduction of sector specific training, if adequately informed by employer requirements (through, for

example, labour market intelligence provided through SSCs), linked to 'real work' opportunities with employers providing training and delivered effectively is a welcome development.

The flagship welfare to work intervention is the Work Programme (introduced in Summer 2011) which will provide employment support: referral points and options will differ by customer group and need (from voluntary access from day one to 12 months unemployed). The aim is to offer personalised support for those most at risk of disadvantage to return to the workforce coupled with the option to adopt sanctions for those who do not cooperate. The Work Programme providers will also be able to utilise the range of support approaches as described on the previous page.

The design of the Work Programme has been in part a response to criticism of previous interventions: where it is thought that achieving a job outcome has sometimes been a priority at the expense of providing more intensive support and skills development, which can aid both the transition to work and improve the chance of progression. Work Programme providers however will be encouraged to support claimants through a payment mechanism that rewards the delivery of outcomes and particularly sustainable employment, while providing differential pricing which is designed to reflect the intensity of support an individual will require to gain employment. The evidence underpinning this study provides learning upon which welfare to work interventions, including the Work Programme, can draw from:

- Employer demand and employer engagement is central to the successful transition from benefits into work with an opportunity for progression. The Work Programme will need to harness relevant demand side information to support the implementation of an approach based on placing those on benefits into work with an opportunity for training. The development of relevant demand-side measures to reflect the benefits employers gain from employing those on benefits in terms of, for example, addressing an employer skill shortage or gap may help to strengthen the demand-side orientation of the programme.
- Action is underway to implement pricing models for provision which do not result in 'parking' those most in need and who remain most at risk of exclusion. Use of a pricing model that encourages sustainable employment, as in the Work Programme, is a welcome innovation. There are, however, concerns that risks remain and a payment by results system will not adequately incentivise support for those furthest away from the labour market and most at risk of labour market exclusion, as experienced in Australia. There is an opportunity to monitor this approach and learn how best to identify and manage these risks during the implementation of the Work Programme.

- The introduction of an incentive to encourage the development of the human capital of those with low or no skills (to encourage providers to make the connection with basic skills and/or apprenticeship provision) and improve integration of the skills and employment systems.
- The introduction of a long term incentive (in the US they have used very long term outcome payments up to 10 years) based on increases in wages or a move from temporary to permanent employment to encourage providers to support people to stay in employment and continue to advance.
- The development and addition of a 'distance travelled' framework to assess the progress of those most at risk of exclusion would be a welcome addition to the Work Programme. A personal development plan (or Career Development Plan) would provide an initial framework to integrate learning and employment and provide an opportunity to raise aspirations and monitor progress.
- Self-employment support is one form of intervention available directly from Jobcentre Plus and via the Work Programme. As a viable route to work however there is a risk of swapping one form of precarious, low income activity for another with no long term benefit (Clayton and Brinkley, 2011) and the positive or negative impact of this route on benefit claimants needs to be closely monitored to ensure that this is a cost-effective option.
- The evidence suggests that there are clear differences between workless groups in relation to their motivation to develop skills with those on unemployment benefits more likely to cite 'getting a job' as a prime motivating factor and those on incapacity benefits more likely to identify 'learning a subject of interest'. It would appear that mandatory participation in work activity (Mandatory Work Activity option) or in skills provision (under the proposed Skills Conditionality) risk being less effective than if pursued as a voluntary option. Careful implementation is required to maximise the opportunity for successful intervention. There is a risk that Skill Conditionality may prove to be a costly and ultimately ineffective intervention for some customer groups.

## 6.8 Gaps in the knowledge base

This study has revealed and documented a substantial evidence base to support the development and implementation of policies which seek to support the transition from worklessness to sustained employment. In general a traditional model of career development forms the basis for policy analysis with sustained progression often associated with a move towards higher quality jobs and higher earnings and pay. It is valuable however to recognise that the traditional model is not the only model that can be applied to explore sustained progression. 'New' career models which accommodate periods of work and non-work, lateral and vertical progression also have a role to play in exploring sustained progression for those in low paid work which is yet to be explored in the context of low pay and progression.

The evidence base is rich and varied, drawing on a range of methodologies and theoretical perspectives. The evidence base associated with the transition from worklessness to employment is far more developed than the base associated with progression in the labour market and there remain gaps to be explored as we seek to further develop our understanding of a complex and challenging policy area. These include research gaps associated with, for example:

- The impact of the polarisation process (for instance how it varies within fast growing and declining industries) and on the related outcomes for quality and quantity of low paid and low skilled work, and opportunities for progression.
- The reasons why workers (and specific groups) in low paid jobs leave employment, the paths they take through the labour market and the steps employers take to induct and retain groups at risk of exclusion from the labour market to better understand and quantify cycling and labour market progression.
- Research to identify the factors which encourage self-efficacy (a workers confidence and ability to successfully perform a specific task within a given context) both in the workplace and during periods of worklessness to inform the development of interventions which seek to encourage the development of those at risk of disadvantage.
- The impact on labour turnover of 'good' HR practice which develops internal progression pathways and supports the development of those in low paid jobs, in order to inform policy development and to support employer engagement (through the identification of good practice and the promotion of the benefits of such an approach). There is an opportunity to explore the potential of existing policy measures including Investors in People (IIP) and High Performance Working (HPW) to develop employer Human Resource Management (HRM) practices in relation to low skilled and low paid jobs and the development of careers and progression for those in low paid jobs.

- More detailed evidence is required associated with the nature of successful skills based interventions. Particular attention should be placed on the assessment and matching of skills needs (on behalf of employers, individuals and intermediaries), pedagogy and the evaluation of impact by both supply (e.g. providers) and demand side (e.g. employers) stakeholders to inform process improvements. In addition, it is widely accepted that employer engagement and influence over the design and delivery of skills intervention is a strength; however, little is known about how best to achieve this (to the benefit of the employer and the provision).
- Findings emerging from the Employment Retention and Advancement Demonstration (ERAD) suggest that the intensive advisor support associated with information, advice and guidance on training choice and how to translate new skills and qualifications into advancement in the labour market were equally as important as the financial incentives in promoting engagement. Further research is needed to better understand the potential role of IAG, development of career management skills and use of personal development plans in supporting progression in, as well as transition into, the labour market; and how best to integrate this within the skills and employment system.
- Longer term (two to five years) assessment of the cost–effectiveness of interventions which support the development of skills, develop career aspirations, and provide post-employment support so that UK policy makers can decide how best to deploy and align welfare to work and skills resources that deliver both short-term job entry outcomes and longer term sustainable progression.

## 6.9 Conclusions

Boosting stocks of qualifications (or providing generic employability training) is unlikely to engage with the skills needs of particular firms and the critical issue of skills utilisation (the foundation of improved performance and competitiveness) and self-efficacy (individual performance in the workplace) is likely to be neglected. The evidence points to the combination of a variety of supply/demand-side, individual, institutional and locational factors which combine to present significant barriers to employment and progression for some individuals and groups in the labour market.

The OECD (Froy and Giguere, 2010) argue that it is advisable to shift from a ‘work first’ approach to active labour market policy to a ‘train-first’ approach for those at high risk of long-term unemployment. However if a move from a ‘work first’ approach to one which embraces the development of skills and sustained and progressive employment is desired, sufficient incentives are required to encourage the development of skills and the targeting of those (both employers and individuals) with the most serious skills gaps.

Previous research conducted by the PRI (LSC, 2007) suggests that those interventions that appear to be most effective are relatively long-term and intensive and embedded in a broader programme including elements such as job search, support and work experience. We argue that there is a need for an integrated approach that binds work and skills together as a lifelong process.

There is little doubt that unemployment and inactivity degrade the skills necessary to succeed in the labour market and that many low paid and low skilled jobs provide few opportunities for upskilling. A long-term view is required to deal with both short-term barriers to learning and work. The concept of career development has a key role to play in raising aspiration and providing a framework for sustained progression. Employers, individuals and stakeholders each have a role if the opportunities for progression are to be realised by those at risk of labour market exclusion and those with low skills working in low paid jobs.

# List of previous publications

*Executive summaries and full versions of all these reports are available from [www.ukces.org.uk](http://www.ukces.org.uk)*

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Evidence Report 2

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**High Performance Working: A Synthesis of Key Literature**

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**High Performance Working: Developing a Survey Tool**

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